

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 May 2, 2009

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.)

1745 Technology Drive

San Jose, CA 95110

(408) 333-8000

(Address, including zip code, of registrant's 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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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 May 27, 2009 was 398,314,373 shares.

BROCADE COMMUNICATIONS SYSTEMS, INC.

FORM 10-Q

QUARTER ENDED MAY 2, 2009

INDEX

	<u>Page</u>
<u>PART I — FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended May 2, 2009 and April 26, 2008</u>	4
<u>Condensed Consolidated Balance Sheets as of May 2, 2009 and October 25, 2008</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended May 2, 2009 and April 26, 2008</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	56
<u>Item 4. Controls and Procedures</u>	58
<u>PART II — OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	58
<u>Item 1A. Risk Factors</u>	58
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	72
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	73
<u>Item 5. Other Information</u>	74
<u>Item 6. Exhibits</u>	75
<u>SIGNATURES</u>	77

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements regarding future events and our 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 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 we operate, and the beliefs and assumptions of our management. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties and assumptions that are difficult to predict, including those identified below under “Part II — Other Information, Item 1A. Risk Factors” and elsewhere herein. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Further, we undertake 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 OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
	(In thousands, except per share amounts)			
Net revenues				
Product	\$ 418,034	\$ 295,584	\$ 780,634	\$ 593,529
Service	88,266	59,311	157,257	109,214
Total net revenues	<u>506,300</u>	<u>354,895</u>	<u>937,891</u>	<u>702,743</u>
Cost of revenues				
Product	199,374	116,628	350,565	234,404
Service	47,133	32,814	85,118	66,309
Total cost of revenues	<u>246,507</u>	<u>149,442</u>	<u>435,683</u>	<u>300,713</u>
Gross margin				
Product	218,660	178,956	430,069	359,125
Service	41,133	26,497	72,139	42,905
Total gross margin	<u>259,793</u>	<u>205,453</u>	<u>502,208</u>	<u>402,030</u>
Operating expenses:				
Research and development	96,295	61,131	164,746	119,336
Sales and marketing	104,898	69,985	178,064	133,160
General and administrative	21,295	13,316	39,683	25,683
Legal fees associated with indemnification obligations and other related costs, net	19,814	4,789	39,113	14,448
Provision for class action lawsuit	—	160,000	—	160,000
Amortization of intangible assets	21,385	7,909	34,614	15,818
Acquisition and integration costs	2,391	—	3,344	—
Restructuring costs and facilities lease benefits, net	2,329	(477)	2,329	(477)
In-process research and development	—	—	26,900	—
Goodwill and acquisition-related intangible assets impairment	53,306	—	53,306	—
Total operating expenses	<u>321,713</u>	<u>316,653</u>	<u>542,099</u>	<u>467,968</u>
Loss from operations	(61,920)	(111,200)	(39,891)	(65,938)
Interest and other income (loss), net	90	7,306	(3,721)	18,791
Interest expense	(26,398)	(1,760)	(47,755)	(3,281)
Gain (loss) on sale of investments, net	341	(4,725)	(523)	(6,949)
Loss before benefit from income taxes	(87,887)	(110,379)	(91,890)	(57,377)
Income tax benefit	(24,769)	(201,757)	(2,741)	(168,600)
Net income (loss)	<u>\$ (63,118)</u>	<u>\$ 91,378</u>	<u>\$ (89,149)</u>	<u>\$ 111,223</u>
Net income (loss) per share — basic	<u>\$ (0.16)</u>	<u>\$ 0.24</u>	<u>\$ (0.23)</u>	<u>\$ 0.29</u>
Net income (loss) per share — diluted	<u>\$ (0.16)</u>	<u>\$ 0.23</u>	<u>\$ (0.23)</u>	<u>\$ 0.28</u>
Shares used in per share calculation — basic	<u>387,143</u>	<u>374,827</u>	<u>381,673</u>	<u>379,010</u>
Shares used in per share calculation — diluted	<u>387,143</u>	<u>393,471</u>	<u>381,673</u>	<u>398,375</u>

See accompanying notes to condensed consolidated financial statements.

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

	<u>May 2, 2009</u>	<u>October 25, 2008</u>
(In thousands, except par value)		
Assets		
Current assets:		
Cash and cash equivalents	\$ 222,626	\$ 453,884
Short-term investments	14,239	152,741
Total cash, cash equivalents and short-term investments	236,865	606,625
Accounts receivable, net of allowances of \$10,391 and \$5,044 at May 2, 2009 and October 25, 2008, respectively	254,237	158,935
Inventories	65,765	21,362
Deferred tax assets	115,134	104,705
Prepaid expenses and other current assets	61,733	49,931
Total current assets	733,734	941,558
Long-term marketable equity securities	—	177,380
Long-term investments	—	36,120
Restricted cash	—	1,075,079
Property and equipment, net	373,562	313,379
Goodwill	1,693,103	268,977
Intangible assets, net	540,825	220,567
Non-current deferred tax assets	127,002	227,795
Other assets	31,370	37,793
Total assets	<u>\$ 3,499,596</u>	<u>\$ 3,298,648</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 140,498	\$ 167,660
Accrued employee compensation	122,263	107,994
Deferred revenue	185,689	103,372
Current liabilities associated with facilities lease losses	14,017	13,422
Liability associated with class action lawsuit	—	160,000
Revolving credit facility	14,050	—
Current portion of long-term debt	43,601	43,606
Convertible subordinated debt	170,741	—
Other accrued liabilities	92,260	105,804
Total current liabilities	783,119	701,858
Long-term debt, net of current portion	940,365	1,011,399
Non-current convertible subordinated debt	—	169,660
Non-current liabilities associated with facilities lease losses	15,102	15,007
Non-current deferred revenue	58,750	37,869
Non-current income tax liability	92,237	67,497
Other non-current liabilities	10,866	13,118
Total liabilities	1,900,439	2,016,408
Commitments and contingencies (Note 10)		
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: 392,377 and 371,858 shares at May 2, 2009 and October 25, 2008, respectively	392	372
Additional paid-in capital	1,723,249	1,392,927
Accumulated other comprehensive loss	(10,155)	(85,877)
Accumulated deficit	(114,329)	(25,182)
Total stockholders' equity	1,599,157	1,282,240
Total liabilities and stockholders' equity	<u>\$ 3,499,596</u>	<u>\$ 3,298,648</u>

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	May 2, 2009	April 26, 2008
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (89,149)	\$ 111,223
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Release of valuation allowance	—	(185,176)
Excess tax benefit from employee stock plans	986	1,084
Depreciation and amortization	94,131	59,524
Loss on disposal of property and equipment	1,150	1,196
Amortization of debt issuance costs	6,699	—
Net losses on investments and marketable equity securities	518	6,447
Provision for doubtful accounts receivable and sales allowances	5,350	3,309
Non-cash compensation expense	58,192	19,647
Non-cash facilities lease benefit	(339)	(477)
Capitalization of interest cost	(4,044)	—
Asset impairment charge	53,306	—
In-process research and development	26,900	—
Changes in assets and liabilities, net of acquired assets and assumed liabilities:		
Accounts receivable	(24,053)	11,586
Inventories	33,806	5,599
Prepaid expenses and other assets	21,208	(21,968)
Deferred tax assets	651	265
Accounts payable	(48,637)	(16,792)
Accrued employee compensation	(40,319)	2,597
Deferred revenue	35,448	9,988
Other accrued liabilities	(23,200)	35,063
Liabilities associated with facilities lease losses	(5,025)	(4,841)
Liability associated with class action lawsuit	(160,000)	160,000
Net cash provided by (used in) operating activities	<u>(56,421)</u>	<u>198,274</u>
Cash flows from investing activities:		
Purchases of short-term investments	(55)	(101,575)
Purchases of long-term investments	—	(37,731)
Proceeds from maturities and sale of short-term investments	146,465	298,446
Proceeds from maturities and sale of long-term investments	30,173	22,483
Proceeds from sale of marketable equity securities and equity investments	—	9,926
Purchases of property and equipment	(73,452)	(31,251)
Decrease in restricted cash	1,075,079	—
Net cash paid in connection with acquisitions	<u>(1,297,482)</u>	<u>(43,554)</u>
Net cash provided by (used in) investing activities	<u>(119,272)</u>	<u>116,744</u>
Cash flows from financing activities:		
Payment of senior underwriting fees related to the term loan	(30,525)	—
Payment of principal related to the term loan	(75,000)	—
Common stock repurchases	—	(130,181)
Proceeds from issuance of common stock, net	37,186	14,699
Proceeds from revolving credit facility	14,050	—
Excess tax benefit from employee stock plans	(986)	(1,084)
Net cash used in financing activities	<u>(55,275)</u>	<u>(116,566)</u>
Effect of exchange rate fluctuations on cash and cash equivalents	(290)	(674)
Net increase (decrease) in cash and cash equivalents	(231,258)	197,778
Cash and cash equivalents, beginning of period	453,884	315,755
Cash and cash equivalents, end of period	<u>\$ 222,626</u>	<u>\$ 513,533</u>
Supplemental schedule of non-cash investing activities:		
Fair value of stock options and unvested awards assumed in exchange for acquired Foundry assets	<u>\$ 255,596</u>	<u>\$ —</u>

See accompanying notes to condensed consolidated financial statements.

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

1. Organization and Operations of Brocade

Brocade Communications Systems, Inc. (“Brocade” or the “Company”) is a leading supplier of networking solutions that help enterprises and service providers connect and manage their information. The Company offers a comprehensive line of networking hardware and software products and services that enable businesses to make their data centers more efficient, reliable and adaptable. The Company also offers a comprehensive, end-to-end suite of high-performance data networking solutions that provide performance, reliability and scalability for a wide range of infrastructure deployments in enterprise and service provider environments.

Brocade’s products, services and solutions simplify information technology (“IT”) infrastructure, increase resource utilization, ensure availability of mission critical applications, and support advanced data, voice and video applications.

As a result of the acquisition of Foundry Networks, Inc. (“Foundry”) in the first fiscal quarter of 2009, Brocade reorganized its four operating segments. The objective of this new organization is to enable the Company to more effectively focus on growth opportunities, while being well-positioned to more rapidly scale and accommodate new business opportunities, including potential future acquisitions. The four operating segments are as follows:

- The Data Storage (“Data Storage”) operating segment encompasses the Storage Area Network (“SAN”) business, which includes infrastructure products and solutions including directors, switches, routers, fabric-based software applications, distance/extension products, as well as management applications and utilities to centralize data management. Data Storage also includes the server portfolio, which is comprised of host bus adapters (“HBAs”), converged network adapters (“CNAs”), Mezzanine cards, as well as the SAN switch modules for bladed servers and embedded switches for blade servers. Prior to fiscal year 2009, the SAN business was referred to as Data Center Infrastructure (“DCI”). In addition, prior to fiscal year 2009, the server portfolio that is now included in Data Storage was referred to as Server Edge and Storage (“SES”).
- The IP Layer 2-3 operating segment includes Layer 2-3 switches and routers which enable efficient use of bandwidth-intensive network business applications and digital entertainment on both local area networks (“LANs”) and wide area networks (“WANs”).
- The Application Delivery Controller (“ADC”) operating segment includes Layer 4–7 switches which allow enterprises and service providers to build highly available network infrastructures that efficiently direct the flow of traffic. ADC also includes the File Area Network solutions (“Files”) (see Note 4, “Goodwill and Intangible Assets,” of the Notes to Condensed Consolidated Financial Statements).
- The Global Services (“Global Services”) operating segment includes consulting and support services that assist customers in designing, implementing, deploying and managing advanced networking solutions, as well as post-contract customer support (“PCS”). Prior to fiscal year 2009, the Global Services operating segment was referred to as Services, Support and Solutions (“S3”).

Brocade products and services are marketed, sold and supported worldwide to end-user customers through distribution partners, including original equipment manufacturers (“OEMs”), distributors, systems integrators, value-added resellers and by the Brocade direct sales force.

2. Summary of Significant Accounting Policies

Basis of Presentation

Brocade has prepared the accompanying financial data as of May 2, 2009, and for the three and six months ended May 2, 2009 and April 26, 2008, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with United States (“U.S.”) generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The October 25, 2008 Condensed Consolidated Balance Sheet was derived from audited consolidated financial statements, but does not include all disclosures required by U.S. generally accepted accounting principles. 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 25, 2008.

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 May 2, 2009, results of operations for the three and six months ended May 2, 2009 and April 26, 2008, and cash flows for the six months ended May 2, 2009 and April 26, 2008 have been made. The results of operations for the three and six months ended May 2, 2009 are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Fiscal Year

The Company's fiscal year is the 52 or 53 weeks ending on the last Saturday in October. As is customary for companies that use the 52/53-week convention, every fifth year contains a 53-week year. Fiscal year 2009 is a 53-week fiscal year and fiscal year 2008 is a 52-week fiscal year. The second quarter of fiscal year 2009 consists of 14 weeks, which is one week longer than a typical quarter. The Company's next 14-week quarter will be in the second quarter of fiscal year 2014.

Computation of Net Income (Loss) per Share

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding during the period, less shares subject to repurchase. Diluted net income per share is computed using the weighted-average number of common shares outstanding and potentially dilutive common shares outstanding during the period that have a dilutive effect on earnings per share. Potentially dilutive common shares result from the assumed exercise of outstanding stock options, assumed vesting of outstanding restricted stock units and awards, assumed issuance of stock under the employee stock purchase plan using the treasury stock method, and the assumed conversion of outstanding convertible subordinated debt using the if-converted method. In a net loss position, diluted net loss per share is computed using only the weighted-average number of common shares outstanding during the period, less shares subject to repurchase, as any additional common shares would be antidilutive.

Fair Value Measurements

The Company adopted the provisions of Statement of Financial Accounting Standards No. 157, "*Fair Value Measurements*" ("SFAS 157"), effective at the beginning of fiscal year 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances fair value measurement disclosure. In February 2008, the FASB issued FSP FAS 157-2, "*Effective Date of FASB Statement No. 157*" ("FSP 157-2"). FSP 157-2 delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities until the beginning of fiscal year 2010, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company is currently assessing the impact that the application of SFAS 157 to nonfinancial assets and nonfinancial liabilities may have on its financial position and results of operations.

Upon its adoption of SFAS 157, the Company applied the disclosure requirements related to financial assets and financial liabilities. The adoption of SFAS 157 for financial assets and financial liabilities was prospective and did not have a material impact on the Company's results of operations or the fair values of its financial assets and financial liabilities (see Note 7, "Fair Value Measurements," of the Notes to Condensed Consolidated Financial Statements). In October 2008, the FASB issued FSP FAS 157-3, "*Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*" ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides guidance on the key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

In April 2009, the FASB issued FSP FAS 157-4, "*Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*" ("FSP 157-4"). FSP 157-4 provides additional guidance for estimating the fair value of assets and liabilities when the volume and level of activity for the asset or liability have significantly decreased. FSP 157-4 also provides guidance on identifying circumstances that indicate a transaction is not orderly. In addition, FSP 157-4 requires disclosure in interim and annual periods of the inputs and valuation techniques used to measure fair value and a discussion of changes in valuation techniques and related inputs, if any, during the period. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and will be adopted by the Company in the third quarter of fiscal year 2009. The adoption of FSP 157-4 is not expected to have a significant impact on its financial position and results of operations.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 159, "*The Fair Value Option for Financial Assets and Financial Liabilities — Including an amendment of FASB Statement No. 115*" ("SFAS 159"), effective at the

beginning of fiscal year 2009. Under SFAS 159, a company may choose, at specified election dates, to measure eligible items 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. Upon its adoption of SFAS 159, the Company did not elect the fair value option for any eligible financial instruments.

Derivative Instruments and Hedging Activities

The Company adopted the provisions of Statement of Financial Accounting Standards No. 161, “*Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133*” (“SFAS 161”), effective at the beginning of the second quarter of fiscal year 2009. SFAS 161 expands financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity’s financial position, results of operations, and cash flows. SFAS 161 also requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. Because SFAS 161 only requires additional disclosure, the adoption of SFAS 161 did not impact the Company’s financial position, results of operations, and cash flows (see Note 11, “Derivative Instruments and Hedging Activities,” of the Notes to Condensed Consolidated Financial Statements).

Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities

The Company adopted the provisions of EITF Issue No. 07-3, “*Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities*” (“EITF 07-3”), effective at the beginning of fiscal year 2009. EITF 07-3 requires that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities be deferred and capitalized, and recognized as an expense as the related goods are delivered or the related services are performed. The adoption of EITF 07-3 did not have a material impact on the Company’s financial position and results of operations.

Concentrations

A majority of the Company’s trade receivable balance is derived from sales to OEM partners in the computer storage and server industry. As of May 2, 2009, two customers accounted for 14% and 11%, respectively, of total accounts receivable. As of October 25, 2008, three customers accounted for 30%, 17% and 14%, respectively, 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. While the Company has not experienced material credit losses in any of the periods presented, there can be no assurance that the Company will not experience material credit losses in the future, particularly in light of the current economic environment.

For the three months ended May 2, 2009 and April 26, 2008, three customers each represented ten percent or more of the Company’s total net revenues for a combined total of 43% and 65% of total net revenues, respectively. The Company’s future success depends upon the buying patterns of significant customers, such as companies within the financial services sector, the U.S. government or individual agencies within the U.S. government, their response to current and future IT investment trends and the continued demand by such customers for the Company’s products. Delays in or a reduction in information technology spending, domestically and/or internationally, could harm the Company’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 Brocade’s products and reduced sales volumes. In addition, 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.

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 for the production of its products. The inability of any single or limited source supplier to fulfill supply, or the inability of a contract manufacturer to fulfill production requirements, could have a material adverse effect on the Company’s future operating results. Further, if the Company’s suppliers face challenges in obtaining credit or otherwise for operating their businesses, they may become unable to continue to offer the materials the Company uses to manufacture its products.

Revenue Recognition

Product revenue. Certain of the Company's products are integrated with software that is essential to the functionality of the equipment. Additionally, the Company provides unspecified software upgrades and enhancements related to the equipment through its maintenance contracts for most of its products. Accordingly, the Company accounts for revenue from these products in accordance with Statement of Position 97-2, "Software Revenue Recognition," as amended ("SOP 97-2"), and all related interpretations. For sales of products where software is incidental to the equipment, including products acquired from Foundry, the Company applies the provisions of Staff Accounting Bulletin No. 104, "Revenue Recognition" ("SAB 104"), and all related interpretations. Product revenue is generally recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee is fixed or determinable; and
- Collection is probable.

Products related to the Company's acquisition of Foundry are generally accounted for under SAB 104. As the Company introduces products based on Foundry's technology which are determined to include software that is essential to the functionality of the equipment, then such new products will be accounted for using SOP 97-2 and all related interpretations.

For newly introduced SAN products, many of the Company's large OEM customers require a product qualification period during which the Company's products are tested and approved by the OEM customers for sale to their customers. Revenue recognition and related cost are deferred for shipments to new OEM customers and for shipments of newly introduced products to existing OEM customers until satisfactory evidence of completion of the product qualification has been received from the OEM customer. In addition, revenue from sales to the Company's master reseller customers is recognized in the same period in which the product is actually sold by the master reseller (sell-through).

The Company reduces revenue for estimated sales allowances, sales programs, and other allowances at the time of shipment. Sales allowances, sales programs, and other allowances are estimated based upon historical experience, current trends and the Company's expectations regarding future experience. In addition, the Company maintains allowances for doubtful accounts, which are also accounted for as a reduction in revenue. The allowance for doubtful accounts is estimated based upon analysis of accounts receivable, historical collection patterns, customer concentrations, customer creditworthiness, current economic trends, changes in customer payment terms and practices, and customer communication.

Service revenue. Service revenue consists of training and maintenance arrangements, including PCS, customer support services and other professional services. PCS services are offered under renewable, annual fee-based contracts or as part of multiple-element arrangements and typically include upgrades and enhancements to the Company's operating system software and telephone support. Revenue related to PCS elements is deferred and recognized ratably over the contractual period. PCS contracts are typically one to three years in length.

Customer support services are offered under renewable, fee-based contracts which provide customers with hardware repair and replacement parts, access to technical assistance, and unspecified software updates and upgrades on a when-and-if available basis. Revenue from customer support services contracts is deferred and recognized ratably over the contractual support period, in accordance with FASB Technical Bulletin 90-1, "Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts" ("FTB 90-1"). Customer support services contracts are typically one to five years in length.

Professional services are offered under fee-based contracts or as part of multiple-element arrangements. Professional services revenue is recognized when services are completed. Training revenue is recognized upon completion of the training.

Multiple-element arrangements. The Company's multiple-element product offerings include computer hardware and software products and support services. The Company also sells certain software products and support services separately. For certain of the Company's products, software is generally essential to the functionality of its hardware products, and are, therefore, accounted for in accordance with SOP 97-2. The Company allocates revenue to each element in a multiple-element arrangement based upon vendor-specific objective evidence ("VSOE") of the fair value of the element, or if VSOE is not available for the delivered element, by application of the residual method. In the application of the residual method, the Company allocates revenue to the undelivered elements based on VSOE for those elements and allocates the residual revenue to the delivered elements. VSOE of the fair value for

an element is based upon the price charged when the element is sold separately. Revenue allocated to each element is then recognized when the basic revenue recognition criteria is met for each element. For sales of products that contain multiple elements and where software is incidental, the Company applies the provisions of EITF Issue No. 00-21, *“Revenue Arrangements with Multiple Deliverables”* (“EITF 00-21”), to determine the separate units of accounting that exist within the arrangement. If more than one unit of accounting exists, the arrangement consideration is allocated to each unit of accounting using either the relative fair value method or the residual fair value method as prescribed by EITF 00-21. Revenue is recognized for each unit of accounting when all the revenue recognition criteria have been met for that unit of accounting.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), *“Business Combinations”*, which was subsequently amended in April 2009 by FSP FAS 141(R)-1, *“Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies,”* (collectively “SFAS 141R”). SFAS 141R requires the acquirer in a business combination to recognize assets and liabilities assumed at their fair values and to recognize acquisition-related costs separately from the acquisition. In circumstances where the acquisition-date fair value for a contingency cannot be determined during the measurement period and it is concluded that it is probable that an asset or liability exists as of the acquisition date and the amount can be reasonably estimated, a contingency is recognized as of the acquisition date based on the estimated amount. SFAS141R will be effective for the Company in fiscal year 2010, with early adoption prohibited. The Company expects the implementation of SFAS 141R will have an impact on its financial position and results of operations, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions the Company consummates after the effective date of November 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *“Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51”* (“SFAS 160”). SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. The Company is currently assessing the impact of SFAS 160, but does not expect the adoption to have a material impact on its financial position, results of operations, and cash flows.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *“The Hierarchy of Generally Accepted Accounting Principles”* (“SFAS 162”). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 will become effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *“The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.”* The Company currently adheres to the hierarchy of generally accepted accounting principles as presented in SFAS 162, and adoption of SFAS 162 is not expected to have a material impact on its financial position, results of operations, and cash flows.

In May 2008, the FASB issued FSP APB 14-1, *“Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)”* (“FSP APB 14-1”). FSP APB 14-1 requires issuers of convertible debt instruments that may be settled in cash upon conversion to account separately for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and will be adopted by the Company in the first quarter of fiscal year 2010 as it applies to its convertible subordinated debt. The Company expects FSP APB 14-1 to have an impact on its statement of financial position.

In June 2008, the FASB issued EITF Issue No. 07-5, *“Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock”* (“EITF 07-5”). EITF 07-5 provides guidance on determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity’s own stock. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and will be adopted by the Company in the first quarter of fiscal year 2010. The Company has not yet adopted EITF 07-5, but it is currently assessing the impact that EITF 07-5 may have on its financial position, results of operations, and cash flows.

In November 2008, the FASB ratified EITF Issue No. 08-7, *“Accounting for Defensive Intangible Assets”* (“EITF 08-7”). EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but

intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141R and SFAS 157. EITF 08-7 is effective for defensive intangible assets acquired in fiscal years beginning on or after December 15, 2008, and will be adopted by the Company in the first quarter of fiscal year 2010. The Company expects EITF 08-7 will have an impact on its consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the intangible assets purchased after the effective date of November 1, 2009.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, "*Recognition and Presentation of Other-Than-Temporary Impairments*" ("FSP 115-2/124-2"). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing "intent and ability" indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 is effective for interim and annual reporting periods ending after June 15, 2009, and will be adopted by the Company in the third quarter of fiscal year 2009. The adoption of FSP 115-2/124-2 is not expected to have a significant impact on its financial position and results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, "*Interim Disclosures about Fair Value of Financial Instruments*" ("FSP 107-1/APB 28-1"). FSP 107-1/APB 28-1 requires interim disclosure regarding the fair value of financial instruments that are within the scope of Statement of Financial Accounting Standards No. 107, "*Disclosures about Fair Value of Financial Instruments*," as amended. Additionally, FSP 107-1/APB 28-1 requires interim disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments as well as changes in methods and significant assumptions, if any, during the period. FSP 107-1/APB 28-1 does not change the accounting treatment for these financial instruments and is effective for interim and annual reporting periods ending after June 15, 2009, and will be adopted by the Company in the third quarter of fiscal year 2009. Because FSP 115-2/124-2 only requires additional disclosure, the adoption of FSP 115-2/124-2 does not impact the Company's financial position and results of operations.

3. Acquisitions

Foundry Networks, Inc.

On December 18, 2008, the Company completed its acquisition of Foundry in accordance with the Agreement and Plan of Merger, which the Company entered into on July 21, 2008, as well as Amendment No. 1 to the Agreement and Plan of Merger, which the Company entered into on November 7, 2008 (as amended, the "Foundry Merger Agreement"). As a result of the merger, Foundry is now a wholly-owned subsidiary of the Company.

The Company recorded the acquisition using the purchase method of accounting and, accordingly, has included the results of operations of Foundry in the accompanying Condensed Consolidated Statements of Operations from December 18, 2008, the date the acquisition was completed.

Pursuant to the terms of the Foundry Merger Agreement, each issued and outstanding share of Foundry common stock, other than the shares held by the Company, was canceled and converted into the right to receive \$16.50 in cash, without interest. Approximately 137,061,501 shares of Foundry common stock were converted into the right to receive approximately \$2.26 billion, which excluded 14,000,000 shares of Foundry common stock held by Brocade that were canceled upon effectiveness of the merger without consideration. In addition, upon the effectiveness of the merger, Brocade: (i) terminated certain outstanding unvested stock options; (ii) in certain circumstances, terminated Foundry's outstanding vested options and granted, in lieu thereof, a right to be issued shares of fully-vested Brocade common stock upon settlement thereof based on the excess of the per-share merger consideration set forth in the Foundry Merger Agreement over the applicable exercise price of such options; and (iii) (a) assumed certain outstanding equity awards or (b) replaced certain of Foundry's outstanding equity awards with reasonably equivalent Brocade equity awards based on a conversion ratio derived from the per-share merger consideration as set forth in the Foundry Merger Agreement, in certain cases offsetting the number of shares (on a post-conversion basis) against Brocade's existing share reserve under its stockholder-approved equity incentive plans.

The total purchase price of the Foundry acquisition was \$2.8 billion and is comprised of the following (in thousands):

	<u>Amount</u>
Cash tendered for shares of outstanding common stock of Foundry (1)	\$ 2,506,474
Fair value of stock options and awards assumed and accelerated in connection with acquisition	255,596
Direct transaction costs	27,395
Total purchase price	<u>\$ 2,789,465</u>

(1) This amount includes \$248.4 million paid by the Company to acquire 14.0 million shares of Foundry common stock in the open market before the consummation of the acquisition, net of \$3.5 million in dividends received.

In connection with this acquisition, the Company assumed options to purchase approximately 18.3 million shares of Foundry common stock which became exercisable for approximately 93.5 million shares of Brocade's common stock at a weighted-average exercise price of approximately \$3.23 per share. The Company also assumed approximately 34.7 million restricted stock units with a weighted-average grant date fair value of \$3.52.

Direct transaction costs include investment banking, legal and accounting fees and other external costs directly related to the acquisition.

The Company allocated the total purchase consideration to the net assets acquired and liabilities assumed, including identifiable intangible assets, based on their respective fair values at the acquisition date, resulting in initial goodwill of approximately \$1,475.6 million, which is not expected to be deductible for income tax purposes. Goodwill represents the excess of the purchase price over the fair value of the underlying acquired net tangible and intangible assets. The factors that contributed to the recognition of goodwill included securing buyer-specific synergies that increase revenue and profits and are not otherwise available to a marketplace participant, acquiring a talented workforce, and significant cost savings opportunities. The allocation of the purchase price reflects various preliminary estimates and analyses and is subject to change during the purchase price allocation period.

The following table summarizes the initial allocation of the purchase price based on the estimated fair values of the assets acquired and liabilities assumed (in thousands):

	<u>Amount</u>
Assets acquired:	
Cash and cash equivalents and short-term investments	\$ 987,956
Accounts receivable	89,831
Inventories	70,633
Identifiable intangible assets	
Developed products technology	191,300
Customer contracts and relationships	194,500
In-process research and development (1)	26,900
Order backlog	6,500
Deferred tax assets	27,174
Goodwill	1,475,603
Other assets	202,804
Total assets acquired	<u>3,273,201</u>
Liabilities assumed:	
Deferred tax liabilities	134,822
Other liabilities	350,959
Total liabilities assumed	<u>485,781</u>
Net assets acquired	<u>\$ 2,787,420</u>

(1) In connection with the acquisition of Foundry, the Company recorded a \$26.9 million in-process research and development charge for the six months ended May 2, 2009.

During the three months ended May 2, 2009, the Company determined it was appropriate to record certain adjustments to the fair value of assets and liabilities acquired from Foundry (see Note 4, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements).

Of the total purchase price, a preliminary estimate of approximately \$392.3 million has been allocated to amortizable intangible assets acquired. The amortizable intangible assets are being amortized on a straight-line basis over their estimated useful lives as follows:

	Amount (in thousands)	Weighted- Average Useful Life (in years)
Developed products technology	\$191,300	5.00
Customer contracts and relationships	194,500	5.00
Order backlog	\$ 6,500	0.25

The following unaudited pro forma financial information for the three and six months ended May 2, 2009 and April 26, 2008 presents a summary of the results of operations of the Company assuming the acquisition of Foundry occurred at the beginning of each of the periods presented. The unaudited pro forma financial information is presented for informational purposes only and is not indicative of the results of operations that would have been achieved if the merger had taken place at the beginning of each of the periods presented, nor is it indicative of future operating results:

In thousands, except per share amounts	Three Months Ended		Six Months Ended	
	May 2, 2009	April 26, 2008 (1)	May 2, 2009 (2)	April 26, 2008 (3)
Total net revenues	\$506,300	\$ 504,950	\$1,014,938	\$1,021,454
Pretax income (loss)	(87,887)	(135,603)	(78,768)	(83,086)
Net income (loss)	(63,118)	88,681	(62,835)	115,648
Basic net income (loss) per share	\$ (0.16)	\$ 0.24	\$ (0.16)	\$ 0.31
Diluted net income (loss) per share	\$ (0.16)	\$ 0.23	\$ (0.16)	\$ 0.29

- (1) The unaudited pro forma financial results for the three months ended April 26, 2008 include Brocade's historical results for the three months ended April 26, 2008 and Foundry's historical results for the three months ended March 31, 2008, including amortization for acquired intangible assets, adjustment to interest expense, and related tax effects.
- (2) The unaudited pro forma financial results for the six months ended May 2, 2009 include Brocade's historical results for the six months ended May 2, 2009, which include Foundry's results subsequent to December 18, 2008, and Foundry's historical results for the period October 26, 2008 to December 18, 2008, including amortization for acquired intangible assets, elimination of in-process research and development charge and acquisition-related fees, and related tax effects.
- (3) The unaudited pro forma financial results for the six months ended April 26, 2008 include Brocade's historical results for the six months ended April 26, 2008 and Foundry's historical results for the three months ended December 31, 2007 and three months ended March 31, 2008, including amortization for acquired intangible assets, adjustment to interest expense, and related tax effects.

4. Goodwill and Intangible Assets

During the second quarter of fiscal year 2008, the Company allocated goodwill to each operating unit as defined by Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," as amended ("SFAS 142"). During the first quarter of fiscal year 2009, Brocade reorganized its four operating segments, of which two are individually reportable segments: Data Storage and Global Services; and two, IP Layer 2-3 and ADC, are combined into one reportable segment: IP Products. Prior period allocation of goodwill activity by reportable segment has been conformed to the new measurements of segment financial reporting implemented in the first quarter of fiscal year 2009. Prior to fiscal year 2009, SES and Files were combined into one reportable segment (referred to together as "Other").

In accordance with SFAS 142, Brocade conducts a goodwill impairment analysis annually and as necessary if changes in facts and circumstances indicate that the fair value of the reporting unit may be less than its carrying amount. Consistent with prior years, the Company performed its annual goodwill impairment test using measurement data as of the first day of the second fiscal quarter.

SFAS 142 requires a two-step approach in testing goodwill for impairment for each reporting unit. The Company's reporting units are determined by the components of its 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. Data Storage, IP Layer 2-3 and Global Services are individual reporting units, while ADC includes two reporting units, ADC and Files.

The first step measures for impairment by applying fair value-based tests at the reporting unit level. The second step, if necessary, measures the amount of impairment by applying fair value-based tests to individual assets and liabilities within each reporting unit.

To determine the reporting unit's fair values, the Company uses the income approach, the market approach, or a combination thereof. The income approach provides an estimate of fair value based on discounted expected future cash flows ("DCF"). Estimates and assumptions with respect to the determination of the fair value of the Company's reporting units using the income approach include:

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

The Company's estimates of revenues and costs are based on historical data, various internal estimates and a variety of external sources, and are developed by the Company's routine long-range planning process.

The market approach provides an estimate of the fair value of the Company's five reporting units using various price or market multiples applied to the reporting unit's operating results and then applying an appropriate control premium. The control premium is determined by considering control premiums offered as part of the acquisition in both the Company's segment and comparable market segments.

Determining the fair value of a reporting unit is judgmental in nature and involves the use of significant estimates and assumptions. As the Company's market capitalization declined and as the technology sector volatility increased, the Company focused on methods that were more representative of a market participant's view. As a result, in fiscal year 2009, the Company relied primarily on the DCF method, using management projections for each reporting unit and risk-adjusted discount rates, as the Company considered it to be most reflective of a market participant's view of fair value given the current market conditions.

The Company determined based on its completion of step one that no indicators of impairment existed for the Data Storage, IP Layer 2-3, ADC and Global Services reporting units. During the second quarter, the Company made a decision to no longer offer its suite of Files products and concluded that fair value of the Files reporting unit was less than its carrying amount. The fair value of the Files business was determined using comparable companies' data. The Company conducted the second step of the goodwill impairment test and determined that all of the Files goodwill was impaired. Accordingly, the Company recorded a goodwill impairment charge of \$45.8 million for the three months ended May 2, 2009.

The following table summarizes the goodwill activity by reportable segment during the six months ended May 2, 2009 (in thousands):

	<u>Data Storage</u>	<u>IP Products</u>	<u>Global Services</u>	<u>Total</u>
Balance at October 25, 2008	\$ 183,331	\$ 45,832	\$ 39,814	\$ 268,977
Acquisition of Foundry	—	1,357,855	117,748	1,475,603
Balance at January 24, 2009	\$ 183,331	\$ 1,403,687	\$ 157,562	\$ 1,744,580
Goodwill impairment	—	(45,832)	—	(45,832)
Tax and other adjustments (1)	(1,399)	(3,773)	(473)	(5,645)
Balance at May 2, 2009	<u>\$ 181,932</u>	<u>\$ 1,354,082</u>	<u>\$ 157,089</u>	<u>\$ 1,693,103</u>

(1) The goodwill adjustment of \$5.6 million was primarily a result of the realization of deferred tax assets of acquired companies and includes \$1.7 million of Foundry purchase accounting adjustments.

Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("SFAS 144") requires impairment losses to be recorded on long-lived assets used in operations when indications of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. If such

assets are considered to be impaired, the impairment charge recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets. As a result of the impairment indicator described above, the Company performed an impairment analysis for its long-lived assets, including its intangible assets subject to amortization. The analysis indicated that all of the intangible assets associated with the Files business are not recoverable. As a result, the Company recorded an impairment of acquisition-related intangible assets associated with the Files business of \$7.5 million.

Intangible assets as of May 2, 2009 consisted of the following (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Tradename	\$ 13,941	\$ 8,102	\$ 5,839
Core/developed technology	338,158	95,686	242,472
Customer relationships	364,981	72,623	292,358
Non-compete agreements	970	814	156
Total intangible assets	\$ 718,050	\$ 177,225	\$ 540,825

Intangible assets as of October 25, 2008 consisted of the following (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Tradename	\$ 14,873	\$ 6,971	\$ 7,902
Core/developed technology	154,754	71,202	83,552
Customer relationships	179,412	50,654	128,758
Non-compete agreements	970	615	355
Total intangible assets	\$ 350,009	\$ 129,442	\$ 220,567

Intangible assets other than goodwill are amortized over their estimated useful lives, unless the Company has determined these lives to be indefinite. The Company amortizes intangible assets over the following remaining useful lives (in years):

	Useful Life
Tradename	6.30
Core/Developed technology	4.02
Customer relationships	4.60
Non-compete agreements	0.38
Total intangible assets	4.36

For the three and six months ended May 2, 2009, amortization expense related to intangible assets of \$18.0 million and \$30.0 million, respectively, was included in cost of revenues, and \$21.4 million and \$34.6 million, respectively, was included in operating expenses in the Condensed Consolidated Statement of Operations. For the three and six months ended April 26, 2008, amortization expense related to intangible assets of \$8.5 million and \$19.8 million, respectively, was included in cost of revenues, and \$7.9 million and \$15.8 million, respectively, was included in operating expenses in the Condensed Consolidated Statement of Operations.

The following table presents the estimated future amortization of intangible assets as of May 2, 2009 (in thousands):

Fiscal Year	Future Estimated Amortization
2009 (1)	\$ 69,924
2010	126,873
2011	119,770
2012	107,062
2013	94,057
Thereafter	23,139
Total	\$ 540,825

(1) Reflects the remaining six months of fiscal year 2009.

5. Balance Sheet Details

The following tables provide details of selected balance sheet items (in thousands):

	May 2, 2009	October 25, 2008
Accounts Receivable:		
Accounts receivable	\$ 264,627	\$ 163,979
Allowance for doubtful accounts	(3,341)	(675)
Sales allowances	(7,049)	(4,369)
Total	<u>\$ 254,237</u>	<u>\$ 158,935</u>
Inventories:		
Raw materials	\$ 9,529	\$ 5,596
Work-in-process	15,727	—
Finished goods	40,509	15,766
Total	<u>\$ 65,765</u>	<u>\$ 21,362</u>
Property and equipment, net:		
Computer equipment and software	\$ 122,275	\$ 117,167
Engineering and other equipment	230,146	208,613
Furniture and fixtures	13,529	12,066
Leasehold improvements	61,072	58,651
Land and building	81,955	80,882
Company campus (1)	158,491	103,007
Subtotal	667,468	580,386
Less: Accumulated depreciation and amortization	(293,906)	(267,007)
Total	<u>\$ 373,562</u>	<u>\$ 313,379</u>

- (1) In connection with the purchase of the property located in San Jose, California, the Company also engaged a third party as development manager to manage the development and construction of improvements on the property, which are still in progress. Included in the \$158.5 million in Company campus as of May 2, 2009 is \$8.0 million that the Company has agreed to pay the developer on May 22, 2011 or earlier if Brocade decides to transfer any part of the Company campus project.

	May 2, 2009	October 25, 2008
Other accrued liabilities:		
Income taxes payable	\$ 5,614	\$ 6,749
Accrued warranty	6,749	5,051
Inventory purchase commitments	28,212	17,332
Accrued sales programs	7,666	13,438
Other	44,019	63,234
Total	<u>\$ 92,260</u>	<u>\$ 105,804</u>

6. Investments and Equity Securities

The following table summarizes the Company's investments and equity securities (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
May 2, 2009				
Corporate bonds and notes	\$ 14,191	\$ 48	\$ —	\$ 14,239
Total	<u>\$ 14,191</u>	<u>\$ 48</u>	<u>\$ —</u>	<u>\$ 14,239</u>
Reported as:				
Short-term investments				\$ 14,239
Long-term investments				—
Total				<u>\$ 14,239</u>
October 25, 2008				
Debt securities issued by U.S. government and its agencies and municipal obligations	\$ 40,504	\$ 44	\$ (22)	\$ 40,526
Corporate bonds and notes	146,457	206	(3,274)	143,389

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Marketable equity securities	253,378	—	(71,052)	182,326
Total	<u>\$ 440,339</u>	<u>\$ 250</u>	<u>\$ (74,348)</u>	<u>\$ 366,241</u>
Reported as:				
Short-term investments				\$ 152,741
Long-term investments and marketable equity securities				213,500
Total				<u>\$ 366,241</u>

At May 2, 2009 and October 25, 2008, net unrealized holding (gains) losses on investments of \$(48.1) thousand and \$73.6 million, respectively, were included in accumulated other comprehensive (income) loss in the accompanying Condensed Consolidated Balance Sheets.

As of October 25, 2008, the Company had \$71.1 million in gross unrealized losses in connection with the 14.0 million shares of Foundry common stock held by Brocade. Effective upon the consummation of the merger with Foundry, the Company reversed the gross unrealized losses of \$71.1 million and increased its investment in Foundry to its historical cost, which is reflected in the total purchase price of the acquisition, pursuant to Statement of Financial Accounting Standards No. 141, "*Business Combinations*." As such, the Company did not have any realized gains (losses) in connection with these marketable equity securities for the six months ended May 2, 2009.

7. Fair Value Measurements

SFAS 157 defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and it considers assumptions that market participants would use when pricing the asset or liability.

Fair Value Hierarchy

SFAS 157 establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize 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. SFAS 157 establishes three levels of inputs that may be used to measure fair value:

Level 1

Level 1 applies to assets and liabilities for which there are quoted prices in active markets for identical assets or liabilities. Valuations are based on quoted prices that are readily and regularly available in an active market and do not entail a significant degree of judgment. Brocade's assets utilizing Level 1 inputs include money market funds and certain of the Company's corporate bonds that are traded in an active market with sufficient volume and frequency of transactions.

Level 2

Level 2 applies to assets and liabilities for which there are other than Level 1 observable inputs such as quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data. Brocade's liabilities utilizing Level 2 inputs include derivative instruments.

Level 2 instruments require more management judgment and subjectivity as compared to Level 1 instruments. For instance:

- Determining which instruments are most similar to the instrument being priced requires management to identify a sample of similar securities based on the coupon rates, maturity, issuer, credit rating and instrument type, and subjectively select an individual security or multiple securities that are deemed most similar to the security being priced; and
- Determining whether a market is considered active requires management judgment.

Level 3

Level 3 applies to assets and liabilities for which there are unobservable inputs to the valuation methodology that are significant to the measurement of the fair value of the assets or liabilities. The determination of fair value for Level 3 instruments requires the most management judgment and subjectivity. Brocade has no assets or liabilities utilizing Level 3 inputs.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of May 2, 2009 were as follows (in thousands):

	Balance as of May 2, 2009	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	\$ 104,336	\$ 104,336	\$ —	\$ —
Corporate bonds	14,239	14,239	—	—
Total assets measured at fair value	<u>\$ 118,575</u>	<u>\$ 118,575</u>	<u>\$ —</u>	<u>\$ —</u>
Liabilities:				
Derivative liabilities	\$ 446	\$ —	\$ 446	\$ —
Total liabilities measured at fair value	<u>\$ 446</u>	<u>\$ —</u>	<u>\$ 446</u>	<u>\$ —</u>

The Company uses observable market prices for comparable instruments to value its derivative instruments. As of May 2, 2009, approximately \$0.4 million of its derivative instruments that were measured at fair value on a recurring basis were classified as Level 2.

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's condensed consolidated balance sheet as of May 2, 2009 as follows (in thousands):

	Fair Value Measurements Using			Balance as of May 2, 2009
	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets:				
Cash equivalents	\$ 104,336	\$ —	\$ —	\$ 104,336
Short-term investments	14,239	—	—	14,239
Total assets measured at fair value	<u>\$ 118,575</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 118,575</u>
Liabilities:				
Other accrued liabilities	\$ —	\$ 446	\$ —	\$ 446
Total liabilities measured at fair value	<u>\$ —</u>	<u>\$ 446</u>	<u>\$ —</u>	<u>\$ 446</u>

8. Liabilities Associated with Facilities Lease Losses

During the six months ended May 2, 2009, the Company recorded a purchase accounting adjustment of \$6.1 million related to estimated facilities lease losses as a result of the acquisition of Foundry, net of expected sublease income. As of May 2, 2009, the Company had \$29.1 million in facilities lease loss reserve related to future lease commitments, net of expected sublease income. 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 25, 2008	\$ 28,429
Additional reserve related to acquisition of Foundry	6,055
Cash payments on facilities leases	(5,599)
Non-cash charges and other adjustments, net	234
Reserve balance at May 2, 2009	<u>\$ 29,119</u>

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

9. Borrowings

Senior Secured Credit Facility

On October 7, 2008, the Company entered into a credit agreement with the following lenders, Bank of America, N.A., Morgan Stanley Senior Funding, Inc., HSBC Bank USA National Association and Keybank National Association. The credit agreement provides for (i) a five-year \$1,100.0 million term loan facility and (ii) a five-year \$125.0 million revolving credit facility, which includes a \$25.0 million swing line loan subfacility and a \$25.0 million letter of credit subfacility.

The net proceeds of the term loan facility were used to finance a portion of the Company's acquisition of Foundry. In addition to the term loan facility, during the six months ended May 2, 2009, the Company drew \$14.1 million from the \$125.0 million revolving credit facility to finance a small portion of the merger. 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." As of May 2, 2009, \$14.1 million was outstanding under the revolving credit facility. No amount was outstanding under the revolving credit facility as of October 25, 2008.

Loans under the Senior Secured Credit Facility bear interest, at the Company's option, at a rate equal to either the London Interbank Offered Rate ("LIBOR") rate, plus an applicable margin equal to 4.0% per annum or the prime lending rate, plus an applicable margin equal to 3.0% per annum. The applicable margin with respect to revolving loans is subject to adjustment based on the Company's consolidated senior secured leverage ratio, as defined in the credit agreement. The LIBOR rate floor is 3.0% per annum and the prime lending rate floor is 4.0% per annum, in each case, for the life of the Senior Secured Credit Facility.

The proceeds of the term loan were deposited in a restricted securities account pending the closing of the merger and other release conditions, and were reported as long-term restricted cash on the Condensed Consolidated Balance Sheet as of October 25, 2008. On December 19, 2008, the proceeds of the term loan were released from the restricted securities account to fund the merger. As of May 2, 2009, the Company recorded the current portion of the liability associated with the term loan of \$43.6 million, net of the debt discount of \$11.4 million, as "Current portion of long-term debt," and the Company recorded the long-term portion of the liability associated with the term loan of \$940.4 million, net of the debt discount of \$29.6 million, as "Long-term debt, net of current portion" on the Condensed Consolidated Balance Sheet. As of October 25, 2008, the Company recorded the current portion of the liability associated with the term loan of \$43.6 million, net of the debt discount of \$11.4 million, as "Current portion of long-term debt," and the Company recorded the long-term portion of the liability associated with the term loan of \$1,011.4 million, net of the debt discount of \$34.2 million, as "Long-term debt, net of current portion" on the Condensed Consolidated Balance Sheet.

The Company is permitted to make voluntary prepayments at any time (without payment of a premium, other than in the case of a repricing transaction in respect of the term loan facility), and is required to make mandatory prepayments on the term loan (without payment of a premium) with (i) net cash proceeds from non-ordinary course asset sales (subject to reinvestment rights and other exceptions), (ii) net cash proceeds from issuances of debt (other than certain permitted debt), (iii) a percentage of 50% or 0% of Brocade's excess cash flow, based on Brocade's consolidated senior secured leverage ratio, beginning with the fiscal year ending October 27, 2009, and (iv) casualty proceeds and condemnation awards (subject to reinvestment rights and other exceptions). The Company is required to pay quarterly installments on the term loan equal to an aggregate annual amount of 5% of the original principal amount thereof in the first and second year, 10% in the third year, 20% in the fourth year and 60% in the fifth year, with any remaining balance payable on the final maturity date of the term loan. Upon a repricing of the term loan (including through a refinancing) that results in the weighted-average yield or applicable rate of such term loan immediately after such repricing being lower than such yield or rate immediately prior to such repricing, a 2.0% premium is payable during the first year following the closing and a 1.0% premium is payable during the second year following the closing.

The obligations of the Company and its subsidiary guarantors under the Senior Secured Credit Facility and the related guarantees thereunder are secured, subject to customary permitted liens and other agreed upon exceptions, by (i) a first priority pledge of all of the equity interests of each of the Company's direct and indirect subsidiaries and (ii) a perfected first priority interest in and mortgages on all tangible and intangible assets of the Company and each subsidiary guarantor, except, in the case of a foreign subsidiary, to the extent such pledge would be prohibited by applicable law or would result in materially adverse tax consequences (limited, in the case of a first-tier foreign subsidiary, to 65% of the voting stock and 100% of non-voting stock of such first-tier foreign subsidiary). In addition, the term loan has not been registered with the SEC as of May 2, 2009.

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. 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 May 2, 2009 and October 25, 2008. 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 recent historical basis will have the effect, among other things, of reducing the flexibility of Brocade to respond to changing business and economic conditions and increasing borrowing costs, and may adversely affect Brocade's operations and financial results. In addition, the Company's failure to comply with these covenants could result in a default under the Senior Secured Credit Facility and its other debt, which could permit the holders to accelerate such debt or demand payment in exchange for a waiver of such default. If any of the Company's debt is accelerated, the Company may not have sufficient funds available to repay such debt.

Fees totaling \$27.6 million associated with the acquisition have been capitalized as deferred financing costs, with \$4.0 million amortized as of May 2, 2009. As of May 2, 2009, the short-term portion of the deferred financing costs was \$6.7 million and is reported within prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet. As of May 2, 2009, the long-term portion of the deferred financing costs was \$16.9 million and is reported within other assets on the Condensed Consolidated Balance Sheet. As of October 25, 2008, the short-term portion of the deferred financing costs was \$7.9 million and is reported within prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet. As of October 25, 2008, the long-term portion of the deferred financing costs was \$23.2 million and is reported within other assets on the Condensed Consolidated Balance Sheet. All fees capitalized are related to the term loan facility. The deferred financing costs are being amortized using the effective interest method over the five-year term of the debt. During the three months ended May 2, 2009, the Company paid \$75.0 million towards the principal of the term loan.

Convertible Subordinated Debt

On January 29, 2007, effective upon the consummation of the merger with McDATA Corporation ("McDATA"), the Company fully and unconditionally guaranteed and became a co-obligor on the 2.25% Notes of McDATA ("2.25% Notes"). The 2.25% Notes were convertible into McDATA's Class A common stock at a conversion rate of 93.3986 shares per \$1,000 principal amount of notes (aggregate of approximately 16.1 million shares) at any time prior to February 15, 2010, subject to adjustments. Pursuant to Brocade's merger agreement with McDATA, at the effective time of the merger, each outstanding share of McDATA's Class A common stock, \$0.01 par value per share, was converted into the right to receive 0.75 of a share of Brocade's common stock, \$0.001 par value per share, together with cash in lieu of fractional shares. As a result, an approximate aggregate of 12.1 million shares of Brocade's common stock are issuable upon conversion of the 2.25% Notes at any time prior to February 15, 2010, subject to adjustments. For the three and six months ended May 2, 2009, 12.1 million shares were antidilutive and therefore not included in the calculation of diluted net loss per share. For the three and six months ended April 26, 2008, 12.1 million shares were dilutive and therefore included in the calculation of diluted net income per share.

As of May 2, 2009 and October 25, 2008, convertible subordinated debt included the principal amount of \$172.5 million of outstanding 2.25% Notes due February 15, 2010, previously issued by McDATA.

As of May 2, 2009, the approximate aggregate fair value of the outstanding convertible subordinated debt was \$168.0 million. The Company estimated the fair value of the outstanding convertible subordinated debt by using the high and low prices per \$100 of the Company's 2.25% Notes as of the last day of trading for the second fiscal 2009 quarter, which were both \$97.38.

Concurrent with the issuance of the 2.25% Notes, McDATA entered into share option transactions using approximately \$20.5 million of net proceeds. As part of these share option transactions, McDATA purchased options that cover approximately 12.1 million shares of common stock, at a strike price of \$14.28. McDATA also sold options that cover approximately 12.7 million shares of common stock, at a strike price of \$20.11. The net cost of the share option transactions was recorded against additional paid-in capital in accordance with EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock."

10. Commitments and Contingencies

Operating and Capital Leases

The Company leases certain facilities and certain equipment under various operating and capital lease agreements expiring through January 2017. In connection with its facilities lease agreements, the Company has signed unconditional, irrevocable letters of credit totaling \$2.0 million as security for the leases.

Future minimum lease payments under all non-cancelable operating leases as of May 2, 2009 total \$84.3 million, net of contractual sublease income of \$33.1 million. In addition to base rent, many of the facilities lease agreements require that the Company pay a proportional share of the respective facilities' operating expenses.

Product Warranties

The Company provides warranties on its products ranging from one to five years. Estimated future warranty costs are accrued at the time of shipment and charged to cost of revenues based upon historical experience, current trends and the Company's expectations regarding future experience. The Company's accrued liability for estimated future warranty costs is included in other accrued liabilities on 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 six months ended May 2, 2009 and April 26, 2008 (in thousands):

	Accrued Warranty Six Months Ended	
	May 2, 2009	April 26, 2008
Beginning balance	\$ 5,051	\$ 5,923
Liabilities accrued for warranties issued during the period (1)	3,260	2,416
Warranty claims paid and uses during the period	(825)	(1,878)
Changes in liability for pre-existing warranties during the period	(738)	(611)
Ending balance	<u>\$ 6,749</u>	<u>\$ 5,850</u>

(1) Included in the \$3.3 million in liabilities accrued for warranties issued during the six months ended May 2, 2009 is \$1.9 million in warranty liabilities resulting from the Foundry acquisition.

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 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 May 2, 2009, 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

The Company has manufacturing agreements with Hon Hai Precision Industry Co., Ltd. ("Foxconn"), Sanmina-SCI Corporation ("Sanmina"), Flextronics International Ltd. ("Flextronics") and Celestica, Inc. ("Celestica"), collectively "the CMs," under which the Company provides twelve-month product forecasts and places purchase orders in advance of the scheduled delivery of products to the Company's customers. The required lead time for placing orders with the CMs depends on the specific product. As of May 2, 2009, the Company's aggregate commitment to the CMs for inventory components used in the manufacture of Brocade products was \$213.1 million, net of a purchase commitments reserve of \$28.2 million, which the Company expects to utilize during future normal ongoing operations. The Company's purchase orders placed with the CMs are cancelable, however if canceled, the agreements require the Company to purchase all inventory components not returnable, usable by, or sold to, other customers of the aforementioned contract manufacturers. The Company's purchase commitments reserve reflects the Company's estimate of purchase commitments it does not expect to consume in normal operations within the next twelve months.

Income Taxes

In May 2008, the Internal Revenue Service ("IRS") completed its field examination of Brocade's federal income tax return for the year ended October 25, 2003 and issued a Revenue Agent's Report ("RAR"). The IRS is contesting the Company's transfer pricing for the cost sharing and buy-in arrangements with its foreign subsidiaries. The IRS' proposed adjustment would offset approximately \$306.0 million of the Company's net operating loss carryforwards. The IRS' proposed adjustment resulted in a tax assessment of approximately \$6.4 million, excluding penalties and interest. The IRS may make similar claims against the Company's transfer pricing arrangements in future examinations. In June 2008, the Company filed a protest with the Appeals Office of the IRS to challenge the

IRS' proposed adjustment and assessment. In addition, the IRS is currently examining the Company's federal income tax returns for the three tax years ended October 28, 2006. Due to the net operating loss and credit carryforwards, the Company's U.S. federal, state and local income tax returns remain open for examination. The Company is generally not subject to non-U.S. income tax examinations for years before 2000. In February 2009, the IRS commenced an examination of Foundry's federal income tax returns for the years ended December 31, 2006 and 2007. The Company is not aware of any proposed adjustments, but the audit is still ongoing. The Company believes it has adequate reserves for all open tax years.

Integration Costs

In connection with the acquisition of Foundry, the Company recorded acquisition and integration costs of \$2.4 million and \$3.3 million for the three and six months ended May 2, 2009, respectively, which consisted primarily of costs incurred for consulting services and other professional fees. There were no acquisition and integration costs for the three and six months ended April 26, 2008.

Legal Proceedings

IPO 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 (the "District Court") against Brocade, certain of its officers and directors, and certain of the underwriters for Brocade's initial public offering 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 initial complaint generally alleges 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 is 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).

Also part of these coordinated proceedings are actions against McDATA Corporation, certain of its officers and directors, and the underwriters for McDATA's initial public offering of securities, No. 01 Civ. 6627; 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), certain of its officers and directors, and the underwriters for Inrange's initial public offering of securities, No. 01 Civ. 10800; and Foundry, certain of its officers and directors, and the underwriters for Foundry's initial public offering of securities, No. 01 Civ. 10640. The complaints in these actions asserted claims under the Securities Act and Exchange Act. In October 2002, the individual defendants in the Brocade, McDATA and Inrange actions were dismissed without prejudice from the action, pursuant to a tolling agreement.

On February 19, 2003, the Court issued an Opinion and Order dismissing all of the plaintiffs' claims against Brocade and some, but not all, of the claims against McDATA, Inrange and Foundry (collectively, the "Brocade entities"). In 2007, a settlement that had been pending with the Court since 2004 was terminated by stipulation, after a ruling by the Second Circuit Court of Appeals in six IPO litigation "focus" cases (none of the Brocade entities is a focus case) made it unlikely that the settlement would receive final Court approval. Plaintiffs filed amended master allegations and amended complaints and moved for class certification in the six focus cases. In 2008, the Court denied the defendants' motion to dismiss with respect to a substantial portion of the claims and granted the defendants' motion to dismiss with respect to certain limited Section 11 claims. Plaintiffs later withdrew their motion for class certification.

The parties have reached a global preliminary settlement of the litigation and, on April 2, 2009, the preliminary settlement was filed with the Court for approval. Under the terms of the preliminary settlement, the insurers would pay the full amount of settlement share allocated to the Brocade entities, and the Brocade entities would bear no financial liability. The Brocade entities and the Foundry individual defendants, as well as the officer and director defendants who were previously dismissed from the action pursuant to tolling agreements, would receive complete dismissals from the case. The preliminary settlement is pending Court approval.

Securities Litigation

Beginning on or about May 19, 2005, several securities class action complaints were filed against Brocade and certain of its then current and former officers. These actions were filed in the United States District Court for the Northern District of California on

behalf of purchasers of Brocade's stock from February 21, 2001 to May 15, 2005. These lawsuits followed and relate to Brocade's restatement of certain financial results due to stock-based compensation accounting issues. On January 12, 2006, the Court appointed a lead plaintiff and lead counsel. On April 14, 2006, the lead plaintiff filed a consolidated complaint on behalf of purchasers of Brocade's stock from May 18, 2000 to May 15, 2005. On November 3, 2006, the Court denied Brocade's motion to dismiss the consolidated complaint and granted certain individual defendants' motions to dismiss the consolidated complaint with leave to amend. On January 2, 2007, the lead plaintiffs filed an amended consolidated complaint on behalf of purchasers of Brocade's stock from May 18, 2000 to May 15, 2005. The amended consolidated complaint names Brocade and certain of its former officers and directors and alleges, among other things, violations of sections 10(b) and 20(a) of the Exchange Act and Rule 10b-5 promulgated thereunder. The amended consolidated complaint alleges, among other things, that Brocade and the individual defendants made false or misleading public statements regarding Brocade's business and operations and seeks unspecified monetary damages and other relief against the defendants. On January 29, 2007, Brocade filed its answer to the amended consolidated complaint. On August 7, 2007, a federal jury convicted Brocade's former Chief Executive Officer, Gregory Reyes, on ten criminal counts related to Brocade's historical stock option granting practices. On August 27, 2007, the Court denied certain individual defendants' motions to dismiss the amended consolidated complaint. On October 12, 2007, the Court granted lead plaintiffs' motion for class certification and certified a class in this action consisting of all persons and entities who purchased or otherwise acquired the securities of Brocade between May 18, 2000 to May 15, 2005, inclusive, and who were damaged thereby. The Court also partially granted plaintiffs' motion for partial summary judgment against Mr. Reyes, who is a defendant in this action, prohibiting him from re-litigating in this class action the jury's finding from Mr. Reyes' criminal case that he knowingly and willfully made material misrepresentations in Brocade's Annual Report on Form 10-K for 2001, 2002 and 2003. On December 5, 2007, a federal jury convicted Brocade's former human resources director, Stephanie Jensen, on two criminal counts related to Brocade's historical stock option granting practices (Ms. Jensen is not a defendant in the class action). On May 13, 2008, the Court granted plaintiffs' motion for partial summary judgment that Gregory Reyes was acting within the course and scope of his employment at Brocade when he signed Brocade's Form 10-K for 2001, 2002 and 2003. On May 30, 2008, Brocade reached an agreement in principle with the lead plaintiffs to settle the federal securities class action that would result in a payment by Brocade of \$160.0 million to the plaintiff class in exchange for the dismissal with prejudice of all claims against all defendants in the litigation. The parties filed final documentation of the settlement with the Court and the Court granted preliminary approval of the settlement on November 18, 2008. In December 2008, Brocade deposited \$160.0 million into an escrow account on behalf of the plaintiff class to be released upon final approval of the proposed settlement by the Federal District Court. On January 26, 2009, the Federal District Court granted final approval of the settlement.

Beginning on or about May 24, 2005, several derivative actions were also filed against certain of Brocade's current and former officers and directors. These actions were filed in the United States District Court for the Northern District of California and in the California Superior Court in Santa Clara County. The complaints alleged, among other things, that those current and former officers and directors breached their fiduciary duties to Brocade by engaging in alleged wrongful conduct, including conduct complained of in the securities litigation described above. Brocade was named solely as a nominal defendant against whom the plaintiffs sought no monetary recovery (other than the award of attorneys' fees). The derivative actions pending in the United States District Court for the Northern District of California were consolidated and the Court created a Lead Counsel structure. The federal derivative plaintiffs filed a consolidated complaint in the United States District Court for the Northern District of California on October 7, 2005 and Brocade filed a motion to dismiss that action on October 27, 2005. On January 6, 2006, Brocade's motion was granted and the consolidated complaint in the United States District Court for the Northern District of California was dismissed with leave to amend. The parties to this action subsequently reached a preliminary settlement, and, on February 14, 2007, the Court entered an Order granting preliminary approval of the settlement. On April 27, 2007, the Court refused to grant final approval of the settlement at that time.

The derivative actions pending in the California Superior Court in Santa Clara County were consolidated and the derivative plaintiffs filed a consolidated complaint on September 19, 2005. Brocade filed a motion to stay the state derivative action in deference to the substantially identical consolidated derivative action pending in the United States District Court for the Northern District of California, and, on November 15, 2005, the State Court stayed the action. In October 2006, the Court partially lifted the stay and granted plaintiffs leave to file an amended complaint. On November 13, 2006, plaintiffs filed an amended complaint, and Brocade filed a demurrer to the action on March 9, 2007, and on September 4, 2007, a motion to dismiss due to plaintiffs' lack of standing.

On February 22, 2008, Brocade's Board of Directors appointed a Special Litigation Committee of the Board ("SLC") with plenary authority to, among other things, evaluate and resolve the claims asserted in the federal and state derivative actions. On April 25, 2008, the Court in the federal derivative litigation held a hearing at which Brocade informed the Court that Brocade was no longer seeking approval of the previously proposed federal derivative settlement.

On April 15, 2008, another related, but not consolidated, derivative action was filed in the United States District Court for the Northern District of California. The complaint alleged, among other things, that certain of Brocade's officers and directors breached their fiduciary duties to Brocade and violated federal law by engaging in allegedly wrongful conduct, including conduct complained of in the securities litigation and the other derivative litigations described above. Brocade was named solely as a nominal defendant against whom the plaintiff sought no monetary recovery (other than the award of attorneys' fees).

On August 1, 2008, Brocade, acting through the SLC, filed a Second Amended Complaint (the "SLC's Complaint") in the consolidated federal derivative action against ten former officers or directors of Brocade, asserting claims for breach of fiduciary duty and violations of federal and state laws in connection with the matters at issue in the derivative actions and the securities litigation. Brocade also moved (i) to be realigned as a plaintiff in the three pending derivative actions, (ii) to dismiss or stay the unconsolidated federal derivative action, and (iii) to stay the state court derivative action.

On August 12, 2008, the State Court granted Brocade's motion to be realigned as a plaintiff in the state court derivative actions, dismissed the shareholder plaintiff, and stayed the state court action pending further proceedings in the consolidated federal derivative action.

On August 27, 2008, the Federal Court entered an order in the consolidated federal derivative action realigning Brocade as the sole party-plaintiff substituted for the shareholder plaintiff in the action and dismissing the shareholder plaintiff from the case. That same day, the Court entered an order in the unconsolidated federal derivative action realigning Brocade as the sole party-plaintiff, substituted for the shareholder plaintiff in the action, dismissing the shareholder plaintiff from the case, and staying the action pending further developments in the consolidated federal derivative action and other related proceedings.

On October 6, 2008, the defendants in the consolidated federal derivative action filed motions to dismiss the SLC's Complaint. Brocade opposed the defendants' motions. On December 12, 2008, the Federal Court granted the motions in part and denied them in part. The Federal Court dismissed all of the federal claims and certain of the state law claims asserted against five of the ten defendants (the "Federal Court Defendants"), but retained other state law claims, including claims for breach of fiduciary duty. The Federal Court dismissed all claims against the remaining five defendants (the "State Court Defendants") based on statute of limitations grounds.

On April 8, 2009, the Federal Court granted Brocade's motion to lift the stay of the unconsolidated federal derivative action so that Brocade could dismiss the entire action without prejudice. On April 17, 2009, the State Court granted Brocade's motion to lift the stay of the state court derivative action so that Brocade could dismiss without prejudice the claims asserted in that case against 18 defendants whom Brocade had not named in the SLC's Complaint. The state court action remains stayed as to the other defendants.

As of June 2, 2009, the SLC, on behalf of Brocade, had reached agreements with each of the five Federal Court Defendants and two of the five State Court Defendants. The terms of the settlements differ in each case and are at different stages of finality. Terms contained in some, but not all, of the agreements include the payment of money to Brocade, the surrender of certain shares of Brocade stock to Brocade, the contribution of specified amounts to reduce the legal fees and expenses that Brocade otherwise might be obligated to pay, and releases. The agreements with two of the Federal Court Defendants have been approved by the Federal Court. The other agreements remain subject to review by the applicable Federal Court or the State Court. The agreement with one of the Federal Court Defendants is also expressly conditioned on the resolution (to that defendant's satisfaction) of certain other legal proceedings involving that defendant, and is subject to execution of a formal settlement agreement.

On October 23, 2007, a class action complaint was filed against Brocade and certain of its former officers and current and former directors. This action was filed in the California Superior Court in Santa Clara County on behalf of individuals who owned Brocade

stock between February 21, 2001 and May 16, 2005. The complaint generally alleges that Brocade and the individual defendants breached the duty of disclosure by failing to disclose alleged wrongful conduct, including conduct complained of in the securities litigation described above, and seeks unspecified monetary damages and other relief against the defendants. On November 26, 2007, this action was removed from State Court to the United States District Court for the Northern District of California. On December 3, 2007, Brocade filed a motion to dismiss the action in its entirety on the ground that it is preempted by the Securities Litigation Uniform Standards Act of 1998. On March 6, 2008, Brocade's motion to dismiss was denied and the case was remanded to State Court. On May 29, 2008, Brocade filed a demurrer to the complaint. On July 10, 2008, plaintiffs filed an amended complaint and Brocade filed a demurrer to the amended complaint on August 4, 2008. On September 12, 2008, Brocade's demurrer was granted and the amended complaint was dismissed with leave to amend. On October 15, 2008, plaintiffs filed a second amended complaint. The second amended complaint generally alleges that Brocade and the individual defendants violated or conspired to violate the Racketeering Influenced and Corrupt Organizations Act and seeks unspecified monetary damages and other relief against the defendants. Brocade filed a motion to dismiss the second amended complaint on November 17, 2008. On January 30, 2009, the Court granted Brocade's motion and, on March 3, 2009, the Court dismissed the complaint with prejudice. On May 14, 2009, Plaintiffs filed a notice of appeal.

In August and September 2006, purported Foundry stockholders filed two putative derivative actions against certain of Foundry's current and former officers, directors and employees in the Superior Court of the State of California, County of Santa Clara. These actions were captioned *Watkins v. Johnson, et al.* (Case No. 1:06CV068878) and *Rosenbaum v. Johnson, et al.* (Case No. 1:06CV071651). Both actions were consolidated into *In re Foundry Networks, Inc. Derivative Litigation*, Superior Court of the State of California, Santa Clara County, Lead Case No. 1-06-CV 071651 (the "California State Action"). On February 5, 2007, plaintiffs served a Consolidated Amended Shareholder Derivative Complaint (the "CAC"). The CAC named 19 defendants and Foundry as a nominal defendant. In general, the CAC alleged that certain stock option grants made by Foundry were improperly backdated and that such alleged backdating resulted in alleged violations of generally accepted accounting principles, the dissemination of false financial statements and potential tax ramifications. The CAC asserted 11 causes of action against certain and/or all of the defendants, including, among others, breach of fiduciary duty, unjust enrichment and violations of California Corporations Code Sections 25402 and 25403. On February 13, 2007, Foundry filed a motion to stay the CAC pending resolution of a substantially similar derivative action pending in the United States District Court for the Northern District of California, San Jose Division. On March 20, 2007, the Court granted the motion to stay. On October 28, 2008, the parties entered into the Stipulation of Settlement described below.

On March 9, 2007, a purported Foundry stockholder served Foundry's registered agent for service of process with a putative derivative action against Foundry and certain of its current and former officers, directors and employees. The action was filed on February 28, 2007 in the Superior Court of the State of California, Santa Clara County, and captioned *Patel v. Akin, et al.* (Case No. 1-07-CV 080813). The Patel action generally asserted similar claims as those in the CAC as well as a cause of action for violation of Section 1507 of the California Corporations Code, which was not asserted in the California State Action. On April 4, 2007, the plaintiff filed a Request for Voluntary Dismissal of the action. On June 19, 2007, the plaintiff re-filed the action *Patel v. Akin, et al.* (Civil Action No. 3036-VCL) in the Court of Chancery of the State of Delaware, New Castle County (the "Delaware Action"). The complaint again generally asserted similar claims as those in the CAC and sought judgment against the individual defendants for damages purportedly sustained by Foundry as a result of the alleged misconduct, as well as unspecified equitable relief to remedy the individual defendants' alleged breaches of fiduciary duties. The complaint further sought an award of attorney's fees and costs, accountants' and experts' fees, costs and expenses, and such other relief as the Court might deem proper. On October 28, 2008, the parties entered into the Stipulation of Settlement described below.

In September and October 2006, purported Foundry stockholders filed four putative derivative actions against Foundry and certain of its current and former officers, directors and employees in the United States District Court for the Northern District of California. The four actions were captioned *Desai v. Johnson, et al.* (Case No. C-06-05598 PVT), *McDonald v. Johnson, et al.* (Case No. C06 06099 HRL), *Jackson v. Akin, et al.* (C06 06509 JCS) and *Edrington v. Johnson, Jr., et al.* (C06 6752 RMW). On December 8, 2006, the actions were consolidated into *In re Foundry Networks, Inc. Derivative Litigation*, U.S.D.C. No. Dist. Cal. (San Jose Division), Case No. 5:06-CV-05598-RMW (the "California Federal Action"). A hearing on certain plaintiffs' motion to appoint lead plaintiff and lead counsel was held on February 2, 2007, and, on February 12, 2007, the Court appointed lead plaintiff and lead counsel. On February 15, 2007, *Edrington v. Johnson, Jr., et al.* was voluntarily dismissed. Pursuant to a stipulation among the parties, on March 26, 2007, plaintiffs filed and served a Consolidated Derivative Complaint (the "CDC"). The CDC generally alleged that certain stock option grants made by Foundry were improperly backdated and that such alleged backdating resulted in alleged violations of generally accepted accounting principles, dissemination of false financial statements and potential tax ramifications. The CDC pled a combination of causes of action, including, among others, breach of fiduciary duty, unjust enrichment and violations of Sections 10(b), 14(a) and 20(a) of the Securities and Exchange Act of 1934. On May 10, 2007, Foundry filed a motion to dismiss the

CDC. Pursuant to a stipulation among the parties and an order of the Court, the hearing on Foundry's motion to dismiss occurred on May 23, 2008. On October 28, 2008, the parties entered into the Stipulation of Settlement described below.

On October 28, 2008, a Stipulation of Settlement was executed to settle each of the California State Action, the California Federal Action and the Delaware Action. On October 29, 2008, the Stipulation of Settlement was filed with the Court in the California Federal Action. Pursuant to the Stipulation of Settlement, counsel for plaintiffs and defendants in the California State Action and Delaware Action will cooperate to effectuate the dismissal with prejudice of the California State Action and the Delaware Action. Under the Stipulation of Settlement, Foundry would receive cash payments totaling almost \$1.9 million. The Stipulation of Settlement further provided that Foundry would adopt certain corporate governance measures and Foundry would pay Lead Plaintiffs' Counsel \$1.2 million for their fees and expenses. The Stipulation of Settlement also provided for a release of claims against the defendants by plaintiffs and Foundry in connection with the matters alleged in the lawsuits and a release of claims against Lead Plaintiffs, Lead Plaintiffs' Counsel and Foundry by the defendants. The Stipulation of Settlement provides that it is not an admission by the defendants of any wrongdoing, liability, fault or omission by them.

On February 23, 2009, the Court in the California Federal Action dismissed the California Federal Action with prejudice. On March 11, 2009, the Court in the Delaware Action dismissed the Delaware Action with prejudice. On March 24, 2009, the Court in the California State Action dismissed the California State Action with prejudice.

On July 23, 2008, an action, *Doug Edrington v. Bobby R. Johnson, Jr., et al* (Case No. 1:08-CV-118013), was filed in the Superior Court of the State of California for the County of Santa Clara. On September 19, 2008, the plaintiff filed a first amended complaint. In this action, the plaintiff named as defendants the former members of the board of directors of Foundry. The complaint asserts claims on behalf of Foundry's stockholders who are similarly situated with the plaintiff. Among other things, the complaint alleges that the members of Foundry's board of directors have breached their fiduciary duties to Foundry's stockholders in connection with the acquisition of Foundry by Brocade (the "Merger") and engaged in self-dealing in connection with approval of the Merger, allegedly resulting in an unfair process and unfair price to Foundry's stockholders. The complaint seeks class certification and certain forms of equitable relief. On October 6, 2008, plaintiff filed a motion for preliminary injunction of the Merger, requesting that the Court order that additional disclosure be made to stockholders prior to proceeding with the stockholder vote on the Merger scheduled for October 24, 2008. On October 22, 2008, the Court denied plaintiff's motion for a preliminary injunction. On December 9, 2008, plaintiff filed a second amended complaint. The second amended complaint names as defendants Foundry and the former members of the board of directors of Foundry. The second amended complaint asserts claims similar to the claims asserted in the first amended complaint and includes additional allegations, including, among others, that the former members of Foundry's board of directors breached their fiduciary duties to Foundry's stockholders and engaged in self-dealing in connection with the approval of an amendment to terms of the Merger announced by Foundry on November 7, 2008, allegedly resulting in an unfair process and unfair price to Foundry's stockholders. On December 11, 2008, the parties entered into a Memorandum of Understanding regarding a settlement of the action, which provides for a monetary payment by the Company to plaintiff for certain attorneys' fees and expenses. On April 20, 2009, the parties entered a Stipulation of Settlement. On April 29, 2009, the Court preliminarily approved the settlement. The settlement remains subject to final Court approval. As of May 2, 2009, the Company accrued for the settlement in accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies" ("SFAS 5").

United States Attorney's Office Subpoena for Production of Documents

On June 26, 2006, Foundry received a subpoena from the United States Attorney's Office for the production of documents relating to its historical stock option granting practices. Foundry has produced certain documents to the United States Attorney's Office in October 2006, but has not received correspondence from the United States Attorney's Office since Foundry's production of documents. Foundry has cooperated with the United States Attorney's Office and will continue to do so if requested by the United States Attorney's Office.

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. On August 22, 2005, Foundry filed a response to the complaint denying the allegations. On November 3, 2005, the Court severed Enterasys' claim against Foundry and Extreme Networks, Inc. into two separate cases. The discovery process began and proceeded through August 2007. Opening briefs for a Markman claim construction hearing were filed on August 17, 2007, which was to be held on October 15, 2007. However, on August 28, 2007, before responsive Markman briefs were filed by the parties, Foundry filed a motion to stay the case, which was assented to by Enterasys in

view of petitions that Foundry had filed with the U.S. Patent and Trademark Office (“USPTO”) requesting that the USPTO reexamine the validity of five of the six Enterasys patents given certain prior art. On August 28, 2007, the Court granted Foundry’s motion to stay the case. On March 24 and 28, 2009, the USPTO issued Notice of Intent to Issue Ex Parte Re-examination Certificate for two of the Enterasys patents, which indicated that all the claims were found to be either confirmed or patentable. To date, the USPTO has issued non-final Office Actions (which are published on the USPTO website) on the three remaining Enterasys patents submitted for reexamination. In the Office Actions, the USPTO sustained Foundry’s reasons for alleging that the broadest patent claims of the various patents were invalid, but held that some of the narrower claims of two of the patents were valid. Enterasys has filed responses to all three remaining Office Actions. The reexamination proceedings are *ex parte*, meaning that Foundry cannot participate in the reexamination proceedings between Enterasys and the USPTO concerning the Office Actions.

On September 6, 2006, Chrimar Systems, Inc. (“Chrimar”) filed a lawsuit against Foundry 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. Foundry filed an answer (denying the allegations) and counterclaims on September 27, 2006. Subsequently, Chrimar identified claim 17 of the patent as the exemplary claim being asserted against Foundry. The Court appointed a special master for the case, Professor Mark Lemley of Stanford University Law School. On March 6, 2008, the Special Master held a Markman claim construction hearing and, on March 31, 2008, the Special Master filed a report and recommendation with the Court on how the claims should be construed. On May 1, 2008, the parties filed objections to the Special Master’s report. On July 30, 2008, the Court issued a claim construction order. On August 13, 2008, Chrimar filed a motion with the Court for reconsideration of the Court’s claim construction order, but the Court stayed the motion for future consideration until the parties file motions for summary judgment.

On February 7, 2008, Network-1 Security Solutions, Inc. (“Network-1”) filed a lawsuit against Foundry and other networking companies, namely, Cisco Systems, Inc. (“Cisco”), Cisco-Linksys, LLC, Adtran, Inc., Enterasys, Extreme Networks, Inc., NetGear, Inc., and 3Com Corporation in the United States District Court for the Eastern District of Texas, Tyler Division, alleging that certain of Foundry’s products infringe Network-1’s U.S. Patent No 6,218,930 and seeking injunctive relief, as well as unspecified damages. On March 3, 2008, Foundry filed an answer to the complaint denying the allegations and asserting various counterclaims. The other defendants filed answers in April 2008. On June 17, 2008, the Court issued a scheduling order for the case and scheduled a Markman claim construction hearing for December 3, 2009 and trial for July 12, 2010.

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. 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. In the event of a result adverse to the Company, the Company could incur substantial monetary liability and/or be required to change its business practices. Any unfavorable determination could have a material adverse effect on the Company’s financial position, results of operations, cash flows or business.

In accordance with SFAS 5, 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. The Company reviews the need for any such liability on a quarterly basis. As of May 2, 2009, the Company has not recorded any such liabilities in accordance with SFAS 5, except as noted above with respect to the Edrington Memorandum of Understanding.

11. 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 a 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 are 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 six months ended May 2, 2009 were the Euro, the Japanese Yen, the British Pound and the Singapore Dollar. 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 forecasted transaction 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 utilize 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 income (loss) in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings, and within the same line item on the condensed consolidated statements of operations as the impact of the hedged transaction.

Volume of Derivative Activity

The total gross notional amount for foreign currency forward contracts, recorded at fair value, is \$11.2 million and \$18.5 million as of May 2, 2009 and October 25, 2008, respectively.

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

In United States Dollars	May 2, 2009	October 25, 2008
Euro	\$ 5,862	\$ 9,710
Japanese Yen	1,131	2,036
British Pound	1,903	4,168
Singapore Dollar	2,281	2,420
Other	—	173
Total	<u>\$ 11,177</u>	<u>\$ 18,507</u>

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

As of May 2, 2009, the Company had gross unrealized loss of \$0.6 million, offset by a gross unrealized gain of \$0.3 million, both of which are included in Other Accrued Liabilities. The net amount of \$0.3 million represents effective hedges and is reported as a component of accumulated other comprehensive loss. Hedge ineffectiveness, which is reported in the Condensed Consolidated Statements of Operations, was not significant.

12. Comprehensive Income (Loss)

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

	Three Months Ended		Six Months Ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Net income (loss)	\$ (63,118)	\$ 91,378	\$ (89,149)	\$ 111,223
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on marketable equity securities, cash flow hedges and investments	931	2,606	76,531	1,261
Change in cumulative translation adjustments	(561)	79	(809)	(1,731)
Total comprehensive income (loss)	<u>\$ (62,748)</u>	<u>\$ 94,063</u>	<u>\$ (13,427)</u>	<u>\$ 110,753</u>

As of October 25, 2008, the Company had \$71.1 million in gross unrealized losses in connection with the 14.0 million shares of Foundry common stock held by Brocade. Effective upon the consummation of the merger with Foundry, the Company reversed the

gross unrealized losses of \$71.1 million, thereby resulting in gross unrealized gains of \$71.1 million as of May 2, 2009 (see Note 6, "Investments and Equity Securities," of the Notes to Condensed Consolidated Financial Statements).

13. Equity Compensation Plans and Stock-Based Compensation

In April 2009, the stockholders of Brocade approved the Company's 2009 Stock Plan, the 2009 Director Plan and the 2009 Employee Stock Purchase Plan ("2009 ESPP"), and such plans are now part of the Company's equity compensation plans along with those described in the Company's Annual Report on Form 10-K for the fiscal year ended October 25, 2008 (the "Plans"). Further, the 1999 Stock Plan, the 1999 Director Option Plan and the 1999 Employee Stock Purchase Plan as described in the Company's Annual Report on Form 10-K for the fiscal year ended October 25, 2008 each expired on March 17, 2009 by its terms.

2009 Stock Plan

The 2009 Stock Plan provides for the grant of stock options, restricted stock awards, restricted stock units, stock appreciation rights, performance units and performance shares, and other stock or cash awards to employees, directors and consultants. Per the terms of the 2009 Stock Plan, 48.0 million shares of the Company's common stock are reserved for issuance under the plan, plus any shares subject to stock options or similar awards granted under the Company's 1999 Stock Plan, the Company's 1999 Nonstatutory Stock Option Plan ("NSO Plan") and the 2001 McDATA Equity Incentive Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the Company's 1999 Stock Plan, the Company's NSO Plan and the 2001 McDATA Equity Incentive Plan that are forfeited to or repurchased by the Company, with the maximum number of shares to be added to the 2009 Stock Plan pursuant to this clause equal to 40,335,624 shares. As of May 2, 2009, the Company reserved 48.2 million shares of authorized but unissued shares of common stock for future issuance under the 2009 Stock Plan. Of this amount, 2.8 million shares were outstanding and 45.4 million shares were available for future grants.

2009 Director Plan

The 2009 Director Plan provides for the grant of stock options and restricted stock units to non-employee directors of the Company. The Board of Directors has reserved 2.0 million shares of the Company's common stock for issuance under the 2009 Director Plan, plus any shares subject to stock options or similar awards granted under the 1999 Director Option Plan that expire or otherwise terminate without having been exercised in full and shares issued pursuant to awards granted under the 1999 Director Option Plan that are forfeited to or repurchased by the Company, with the maximum number of shares to be added to the 2009 Director Plan pursuant to this clause equal to 870,000 shares. As of May 2, 2009, the Company has reserved 2.0 million shares of authorized but unissued shares of common stock for future issuance under the Director Plan. Of this amount, 0.2 million shares were outstanding and 1.8 million shares were available for future grants.

2009 Employee Stock Purchase Plan

The 2009 ESPP permits eligible employees to purchase shares of the Company's common stock through payroll deductions for up to 15% of qualified compensation during the offering period. The purchase price is 85% of the lesser of the fair market value of the Company's common stock on (i) the offering date or (ii) the last day of the offering period; provided, however, that the purchase price for subsequent offering periods may be determined by the Administrator, subject to compliance with the terms of the purchase plan. A total of 35.0 million shares of the Company's common stock are reserved for issuance under the purchase plan. Offering periods under the 2009 ESPP have a duration of up to approximately 24 months, or such shorter period of time, commencing on or about June 1st of the initial year of the purchase plan and terminating on the last trading day in such period, and the next offering period commencing on the first trading day after the end of the preceding offering period and terminating on the last trading day in such period. Typically, a purchase period occurs every six months, up to the same duration of the length of an offering period. As of May 2, 2009, the Company issued no shares under the 2009 ESPP and 35.0 million shares were available for future issuance under the purchase plan.

The Company grants stock options for shares of the Company's common stock to its employees and directors under the various equity plans described above. In accordance with the terms of the 2009 Stock Plan and the 2009 Director Plan, each award granted with an exercise price that is less than fair market value, which includes all grants of restricted stock awards, restricted stock units, performance shares and performance units, will count against the applicable plan's share reserve as 1.56 shares for every one share subject to such award. In addition, the exercise price of stock options and stock appreciation rights granted under the 2009 Stock Plan must be at least equal to the fair market value of the Company's common stock on the date of grant and the exercise price of incentive stock options granted to any participant who owns more than 10% of the total voting power of all classes of the Company's outstanding stock must be at least 110% of the fair market value of the Company's common stock on the date of grant. The term of a

stock option and a stock appreciation right may not exceed seven years, except that, with respect to any participant who owns 10% of the voting power of all classes of the Company's outstanding capital stock, the term of an incentive stock option may not exceed five years.

The Company also grants restricted stock awards and restricted stock units under the 2009 Stock Plan. The majority of the stock options, restricted stock awards and restricted stock units granted under the Plans vest over a period of four years. Certain options and awards granted under the 2009 Stock Plan vest over shorter or longer periods.

At May 2, 2009, an aggregate of approximately 236.5 million shares were authorized for future issuance under the Plans, which include stock options, shares issued pursuant to the 2009 ESPP, restricted stock units and other awards, and shares of Brocade common stock that became issuable in connection with the assumption or substitution of Foundry equity awards. A total of 82.1 million shares of common stock were available for grant under the Plans as of May 2, 2009. Awards that expire, or are canceled without delivery of shares, generally become available for issuance under the Plans.

Stock Options

When the measurement date is certain, the fair value of each option granted during the respective period is estimated on the date of grant using the Black-Scholes valuation model and the assumptions noted in the following table. The dividend yield reflects that Brocade has not paid any cash dividends since inception and does not anticipate paying cash dividends in the foreseeable future. The risk-free interest rate is based on the implied yield on a U.S. Treasury zero-coupon issue with a remaining term equal to the expected term of the option. The expected volatility is based on an equal weighted-average of implied volatilities from traded options of the Company's stock and historical volatility of the Company's stock. The expected term is based on historical exercise behavior.

	Three Months Ended		Six Months Ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Stock Options				
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	0.6 – 2.8%	1.5 – 3.5%	0.5 – 2.8%	1.5 – 4.1%
Expected volatility	61.8%	46.1%	61.8 – 65.3%	44.2 – 46.1%
Expected term (in years)	4.0	4.0	4.0	4.0

The Company recorded \$7.9 million and \$4.5 million of compensation expense related to stock options for the three months ended May 2, 2009 and April 26, 2008, respectively, in accordance with Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS 123R"). The Company recorded \$12.5 million and \$9.7 million of compensation expense related to stock options for the six months ended May 2, 2009 and April 26, 2008, respectively, in accordance with SFAS 123R. Compensation expense computed under the fair value method for stock options issued is being amortized under a graded vesting method over the options' vesting period. A summary of stock option activity under the Plans for the six months ended May 2, 2009 is presented as follows:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at October 25, 2008	35,036	\$ 8.05	4.17	\$ 701
Assumed under the Foundry acquisition	93,509	\$ 3.23		
Granted	5,010	\$ 4.22		
Exercised	(8,363)	\$ 2.43		
Forfeited or expired	(4,329)	\$ 5.64		
Outstanding at May 2, 2009	<u>120,863</u>	<u>\$ 4.64</u>	<u>3.50</u>	<u>\$ 253,307</u>
Vested and expected to vest at May 2, 2009	<u>114,247</u>	<u>\$ 4.67</u>	<u>3.48</u>	<u>\$ 239,016</u>
Exercisable and vested at May 2, 2009	<u>90,441</u>	<u>\$ 4.81</u>	<u>3.28</u>	<u>\$ 188,878</u>

The weighted-average grant date fair value of stock options granted during the three months ended May 2, 2009 and April 26, 2008 was \$2.62 and \$2.76, respectively. The total intrinsic value of stock options exercised for the three months ended May 2, 2009 and April 26, 2008 was \$13.4 million and \$2.6 million, respectively.

As of May 2, 2009, there was \$23.5 million of unrecognized compensation expense related to stock options that is expected to be recognized over a weighted-average period of 1.28 years.

From May 1999 through July 2003, the Company granted 98.8 million options subject to variable accounting as the measurement date of the options granted was not certain. As of May 2, 2009, 1.2 million options with a weighted-average exercise price of \$20.95 and a weighted-average contractual life of 1.59 years remain outstanding and continue to be accounted for under variable accounting.

Employee Stock Purchase Plan

Under Brocade's employee stock purchase plans, including the 2009 ESPP and the 1999 Employee Stock Purchase Plan, (together, the "Brocade ESPP"), eligible employees can participate and purchase shares semi-annually at the lower of 85% of the fair market value of the Company's common stock at the commencement or end of the offering period. The Brocade ESPP permits eligible employees to purchase common stock through payroll deductions for up to 15% of qualified compensation. The Company accounts for the Brocade ESPP as a compensatory plan and recorded compensation expense of \$3.5 million and \$1.7 million for the three months ended May 2, 2009 and April 26, 2008, respectively, and \$4.8 million and \$2.9 million for the six months ended May 2, 2009 and April 26, 2008, respectively, in accordance with SFAS 123R.

The fair value of the option component of Brocade ESPP shares was estimated using the Black-Scholes option pricing model using the following weighted-average assumptions:

Employee Stock Purchase Plan	Three Months Ended		Six Months Ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Expected dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	0.4%	1.5 – 3.3%	0.4 – 1.6%	1.5 – 5.0%
Expected volatility	80.9%	44.8%	80.9%	44.8%
Expected term (in years)	0.5	0.5	0.5	0.5

As of May 2, 2009, there was \$1.0 million of unrecognized compensation expense related to employee stock purchases under the Brocade ESPP. This expense is expected to be recognized over a weighted-average period of 0.08 years.

In addition, as part of its acquisition of Foundry, the Company became the administrator of Foundry's 1999 Employee Stock Purchase Plan ("Foundry ESPP") which will expire on May 31, 2009. As a result of Brocade's assumption of rights under the Foundry ESPP, Foundry employees who became Brocade employees were granted the right to purchase shares of the Company's common stock at the lower of 85% of the fair market value of the Company's common stock, as adjusted in accordance with the Foundry Merger Agreement at (i) the beginning of a rolling two-year offering period or (ii) the end of each semi-annual offering period, subject to a plan limit on the number of shares that may be purchased in an offering period. During the six months ended May 2, 2009, the Company issued 3.4 million shares under the Foundry ESPP. The Company accounts for the Foundry ESPP as a compensatory plan and recorded compensation expense of \$1.0 million and \$1.9 million for the three and six months ended May 2, 2009, respectively, in accordance with SFAS 123R.

The fair value of the option component of Foundry ESPP shares was estimated using the Black-Scholes option pricing model using the following weighted-average assumptions:

Employee Stock Purchase Plan	Three Months Ended	Six Months Ended
	May 2, 2009	May 2, 2009
Expected dividend yield	0.0%	0.0%
Risk-free interest rate	0.03 – 0.2%	0.03 – 0.2%
Expected volatility	81.1 – 96.6%	81.1 – 96.6%
Contractual term (in years)	0.13 – 0.33	0.13 – 0.33

As of May 2, 2009, there was \$0.3 million of unrecognized compensation expense related to employee stock purchases under the Foundry ESPP. This expense is expected to be recognized over a weighted-average period of 0.08 years.

Restricted Stock Awards

No restricted stock awards were issued for the six months ended May 2, 2009 and April 26, 2008. When and if granted, restricted stock awards are not transferable until fully vested, and all unvested shares upon termination are subject to repurchase. The fair value of each award is based on the Company's closing stock price on the date of grant.

A summary of the nonvested restricted stock awards for the six months ended May 2, 2009 is presented as follows:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested at October 25, 2008	14	\$ 0.01
Granted	—	\$ —
Vested	(14)	\$ 0.01
Forfeited	—	\$ —
Nonvested at May 2, 2009	<u>—</u>	<u>\$ —</u>
Expected to vest at May 2, 2009	<u>—</u>	<u>\$ —</u>

Restricted Stock Units

For the six months ended May 2, 2009 and April 26, 2008, Brocade issued 2.8 million and 1.8 million restricted stock units, respectively. Typically, vesting of restricted stock units occurs over one to four years and is subject to the employee's continuing service to Brocade. The compensation expense related to these awards of \$26.6 million and \$4.0 million for the three months ended May 2, 2009 and April 26, 2008, respectively, and \$37.5 million and \$7.1 million for the six months ended May 2, 2009 and April 26, 2008, respectively, was determined using the fair market value of Brocade's common stock on the date of the grant and is recognized under a graded vesting method over the awards' vesting period.

A summary of the changes in restricted stock units outstanding under Brocade's equity compensation plans during the six months ended May 2, 2009 is presented as follows:

	Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested at October 25, 2008	8,306	\$ 7.87
Assumed under the Foundry acquisition	26,050	\$ 3.54
Granted	2,769	\$ 4.10
Vested	(740)	\$ 3.55
Forfeited	(2,689)	\$ 6.83
Nonvested at May 2, 2009	<u>33,696</u>	<u>\$ 4.39</u>
Vested and expected to vest at May 2, 2009	<u>27,735</u>	<u>\$ 4.39</u>

The aggregate intrinsic value of restricted stock units outstanding at May 2, 2009 was \$199.8 million.

On July 30, 2007, the Board of Directors approved a long-term, performance-based equity incentive plan ("Incentive Plan") under the Company's 1999 Stock Plan. The Incentive Plan provides for the grant of restricted stock units to certain Company executive officers and other selected employees. For each restricted stock unit that vests, the plan participant will be entitled to receive one share of the Company's common stock. The restricted stock units that vest are subject to the Company's performance compared to the NASDAQ-100 Index over an initial 27-month performance period. The Incentive Plan participants must also remain a service provider to the Company during the performance period. No restricted stock units would have been earned as of May 2, 2009.

Under the principal terms of the Incentive Plan, the Incentive Plan participants are entitled to receive restricted stock units representing up to an aggregate of 2.0% of the amount the Company's market capitalization growth rate exceeds the growth rate of the NASDAQ-100 Index for the performance period, subject to certain adjustments. The ultimate amount that vests is subject to the discretion of the Board of Directors. The restricted stock units are expected to vest simultaneously with the end of the performance period, which is from August 1, 2007 to October 31, 2009.

As of May 2, 2009, Brocade had \$66.7 million of unrecognized compensation expense, net of estimated forfeitures, related to restricted stock unit grants that is equity classified and \$1.6 million of unrecognized compensation expense related to the Incentive Plan that is liability classified. These expenses are expected to be recognized over a weighted-average period of 1.36 years. As of May 2, 2009, \$5.4 million in compensation expense related to the Incentive Plan has been recognized to date.

14. Income Taxes

The Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"), effective at the beginning of fiscal year 2008. As a result, the cumulative effect of applying FIN 48

was a \$3.1 million decrease to accumulated deficit at the beginning of fiscal year 2008. Historically, the Company classified unrecognized tax benefits as current income taxes payable. Under FIN 48, the Company now classifies unrecognized tax benefits as non-current income tax liability except to the extent it anticipates cash payment within the following year. The amount of gross unrecognized tax benefits at the beginning of fiscal year 2008 was \$88.1 million. The amount of gross unrecognized tax benefits at the end of fiscal year 2008 was \$118.3 million. The total gross unrecognized tax benefits of \$118.3 million at October 25, 2008 include \$85.7 million that, if recognized, would affect the Company's effective tax rate.

During the three and six months ended May 2, 2009, the Company expensed an additional amount of \$0.3 million and \$0.5 million, respectively, for net interest and penalties related to income tax liabilities through income tax expense. During the three and six months ended April 26, 2008, the Company expensed an additional amount of \$0.3 million and \$0.5 million, respectively, for net interest and penalties related to income tax liabilities through income tax expense. The total net interest and penalties as of May 2, 2009 were \$4.8 million.

As of April 26, 2008, the Company believed that sufficient positive evidence existed from historical operations and projections of taxable income in future years to conclude that it was more likely than not that the Company would realize its deferred tax assets. Accordingly, the Company released the valuation allowance of its deferred tax assets during the three months ended April 26, 2008. The Company continues to apply a valuation allowance on the deferred tax assets relating to capital loss carryforwards, foreign tax credits, investments and foreign operating loss carryforwards due to limited carryforward periods and the character of such tax attributes. The release of the valuation allowance for the year ended October 25, 2008 resulted in a tax benefit of \$174.4 million and a reduction of goodwill of \$134.6 million.

The Company is subject to taxation in the United States, various states and several foreign jurisdictions. Due to the net operating loss and credit carryforwards, the Company's U.S. federal, state and local income tax returns generally remain open for examination. The Company is generally not subject to non-U.S. income tax examinations for years before 2000.

In November 2005, the Company was notified by the IRS that the Company's domestic federal income tax return for the year ended October 25, 2003 was subject to audit. In May 2008, the IRS completed its field examination of the Company's federal income tax return for the year ended October 25, 2003 and issued an RAR. The IRS is contesting the Company's transfer pricing for the cost sharing and buy-in arrangements with its foreign subsidiaries. The IRS' proposed adjustment would offset approximately \$306.0 million of the Company's net operating loss carryforwards. The IRS' proposed adjustment resulted in a tax assessment of approximately \$6.4 million, excluding penalties and interest. The IRS may make similar claims against the Company's transfer pricing arrangements in future examinations. In June 2008, the Company filed a protest with the Appeals Office of the IRS to challenge the IRS' proposed adjustment and assessment. In addition, the IRS is currently examining the Company's federal income tax returns for the three tax years ended 2004 through 2006. In May 2006, the Franchise Tax Board notified the Company that its California income tax returns for the years ended October 25, 2003 and October 30, 2004 were subject to audit. The IRS and Franchise Tax Board audits are ongoing and the Company believes its reserves are adequate to cover any potential assessments that may result from these examinations.

In February 2009, the IRS commenced an examination of Foundry's federal income tax returns for the years ended December 31, 2006 and 2007. The Company is not aware of any proposed adjustments, but the audit is still ongoing. The Company believes its reserves are adequate to cover any potential assessments that may result from the examination.

For the three and six months ended May 2, 2009, the Company recorded income tax benefit of \$24.8 million and \$2.7 million, respectively. The income tax benefit for the three and six months ended May 2, 2009 is primarily attributable to the interest and legal expenses resulting in U.S. taxable loss. For the three and six months ended April 26, 2008, the Company recorded income tax benefit of \$201.8 million and \$168.6 million, respectively.

15. Segment Information

Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," as amended ("SFAS 131"), establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about 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.

During the first quarter of fiscal year 2008, Brocade was reorganized into four operating segments, which resulted in changing both its internal and external reporting structure, of which two were individually reportable segments: DCI and S3; and two, SES and Files, which did not meet the quantitative thresholds as defined in SFAS 131, were combined into one reportable segment: Other. These segments were organized principally by product category. The objective of the reorganization was to allow the Company to more effectively focus on growth opportunities, while being well-positioned to rapidly scale and accommodate new business opportunities, including potential future acquisitions.

As a result of the Foundry acquisition during the first quarter of fiscal year 2009, Brocade reorganized its four operating segments, of which two are individually reportable segments: Data Storage and Global Services; and two, IP Layer 2-3 and ADC, are combined into one reportable segment: IP Products. These segments are organized principally by product category.

Although the Company had four operating segments at May 2, 2009, under the aggregation criteria set forth in SFAS 131, the Company operates in three reportable segments: Data Storage, IP Products (which is the aggregate of IP Layer 2-3 and ADC operating segments) and Global Services.

Under the new measurements of segment financial reporting implemented in the first quarter of fiscal year 2009, IP Layer 2-3 and ADC are combined into one reportable segment (referred to together as "IP Products"). The types of products and services from which each reportable segment derives its revenues are as follows:

- Data Storage includes a majority of the Company's storage area network products and software, HBAs, CNAs, Mezzanine cards and embedded switches for blade servers;
- IP Products include Layer 2-3 switches and routers, Layer 4-7 application delivery controllers, file area network products and associated management solutions; and
- Global Services include break/fix maintenance, extended warranty, installation, consulting, network management, related software maintenance and support revenue, and telecommunications services.

Financial decisions and the allocation of resources are based on the information from the Company's management reporting system. At this point in time, the Company does not track any of its assets by operating segments. Consequently, it is not practical to show assets by operating segments. The majority of the Company's assets as of May 2, 2009 were attributable to its United States operations.

Fiscal year 2008 segment results have been conformed to the new measurements of segment financial reporting implemented in the first quarter of fiscal year 2009. Summarized financial information by reportable segment for the three and six months ended May 2, 2009 and April 26, 2008, based on the internal management system, is as follows (in thousands):

	<u>Data Storage</u>	<u>IP Products</u>	<u>Global Services</u>	<u>Total</u>
Three months ended May 2, 2009				
Net revenues	\$ 292,544	\$ 125,490	\$ 88,266	\$ 506,300
Cost of revenues	106,254	93,120	47,133	246,507
Gross margin	<u>\$ 186,290</u>	<u>\$ 32,370</u>	<u>\$ 41,133</u>	<u>\$ 259,793</u>
Three months ended April 26, 2008				
Net revenues	\$ 293,605	\$ 1,979	\$ 59,311	\$ 354,895
Cost of revenues	113,855	2,773	32,814	149,442
Gross margin (loss)	<u>\$ 179,750</u>	<u>\$ (794)</u>	<u>\$ 26,497</u>	<u>\$ 205,453</u>
Six months ended May 2, 2009				
Net revenues	\$ 603,323	\$ 177,311	\$ 157,257	\$ 937,891
Cost of revenues	223,417	127,148	85,118	435,683
Gross margin	<u>\$ 379,906</u>	<u>\$ 50,163</u>	<u>\$ 72,139</u>	<u>\$ 502,208</u>
Six months ended April 26, 2008				
Net revenues	\$ 589,786	\$ 3,743	\$ 109,214	\$ 702,743
Cost of revenues	228,601	5,803	66,309	300,713
Gross margin (loss)	<u>\$ 361,185</u>	<u>\$ (2,060)</u>	<u>\$ 42,905</u>	<u>\$ 402,030</u>

16. Net Income (Loss) per Share

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

	Three Months Ended		Six Months Ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Basic net income (loss) per share				
Net income (loss)	\$ (63,118)	\$ 91,378	\$ (89,149)	\$ 111,223
Weighted-average shares of common stock outstanding	387,143	375,115	381,673	379,300
Less: Weighted-average shares of common stock subject to repurchase	—	(288)	—	(290)
Weighted-average shares used in computing basic net income (loss) per share	387,143	374,827	381,673	379,010
Basic net income (loss) per share	<u>\$ (0.16)</u>	<u>\$ 0.24</u>	<u>\$ (0.23)</u>	<u>\$ 0.29</u>
Diluted net income (loss) per share				
Net income (loss)	\$ (63,118)	\$ 91,378	\$ (89,149)	\$ 111,223
Interest on convertible subordinated debt, net of income tax effect	—	1,058	—	1,627
Net income (loss), as adjusted	(63,118)	92,436	(89,149)	112,850
Weighted-average shares used in computing basic net income (loss) per share	387,143	374,827	381,673	379,010
Dilutive potential common shares	—	18,644	—	19,365
Weighted-average shares used in computing diluted net income (loss) per share	387,143	393,471	381,673	398,375
Diluted net income (loss) per share	<u>\$ (0.16)</u>	<u>\$ 0.23</u>	<u>\$ (0.23)</u>	<u>\$ 0.28</u>

For the three months ended May 2, 2009 and April 26, 2008, potential common shares in the form of stock options to purchase 60.0 million and 15.7 million weighted-average shares of common stock, respectively, were antidilutive and, therefore, not included in the computation of diluted net income (loss) per share. For the six months ended May 2, 2009 and April 26, 2008, potential common shares in the form of stock options to purchase 71.0 million and 15.7 million weighted-average shares of common stock, respectively, were antidilutive and, therefore, not included in the computation of diluted net income (loss) per share. As the Company was in a net loss position, there was no dilutive impact of potential common shares associated with stock options, by application of the treasury stock method, for the three and six months ended May 2, 2009. The dilutive impact of potential common shares associated with stock options, by application of the treasury stock method, for the three and six months ended April 26, 2008 was 5.3 million and 5.7 million, respectively. In addition, for both the three and six months ended May 2, 2009, potential common shares resulting from the potential conversion, on a weighted-average basis, of the Company's convertible subordinated debt of 12.1 million common shares were antidilutive and therefore not included in the computation of diluted net loss per share. However, for both the three and six months ended April 26, 2008, potential common shares resulting from the potential conversion, on a weighted-average basis, of the Company's convertible subordinated debt of 12.1 million common shares were dilutive and therefore included in the computation of diluted net income per share.

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 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 15, 2008.

Overview

Our goal is to be the preeminent provider of storage area and IP networking equipment and services, and the leading provider of data center networking solutions that help enterprises connect and manage their information. In the first fiscal quarter of 2009, we completed our acquisition of Foundry.

As a result of the acquisition of Foundry in the first fiscal quarter of 2009, we reorganized our four operating segments: Data Storage, IP Layer 2-3, Application Delivery Controller and Global Services. The objective of this new organization is to enable us to more effectively focus on growth opportunities, while being well-positioned to more rapidly scale and accommodate new business opportunities, including potential future acquisitions.

Our focus for this year is on three market segments as follows:

- Enterprise Data Center Solutions, which includes directors, switches, HBAs, top-of-rack switches, end-of-row and backbones, file management solutions, application delivery, converged network products and virtualization solutions;
- Enterprise LAN Campus, where we deliver lower cost, higher performance solutions including stackable 1 Gigabit Ethernet ("GigE") and 10GigE solutions, Enhanced Power Over Ethernet plus, 1GigE and 10GigE density, as well as security and wireless solutions;
- Service Providers, where we offer metro Edge and aggregation solutions, Ethernet Backbone, Multi Protocol Label Switching ("MPLS") and 10GigE density.

In the Data Storage segment, we expect to see continued strong growth of our DCX™ Backbone product and increasing acceptance of our full family of 8 Gigabit switch and blade offerings through the end of fiscal year 2009. We also believe directors and embedded switches will grow faster than switches during this same period due to marketplace trends.

In the IP Products segment, we expect to see growth through the end of fiscal year 2009, in part due to anticipated benefit in the fourth fiscal quarter of 2009 from our recently expanded OEM partnership with International Business Machines Corporation ("IBM"), which enables IBM to rebrand and sell certain Brocade enterprise IP networking products (see Note 15, "Segment Information," of the Notes to Condensed Consolidated Financial Statements).

In the second fiscal quarter of 2009, while we noticed additional pricing pressure resulting from the macroeconomic environment, we expect that quarterly average selling price declines will remain in the low single digits through the end of fiscal year 2009.

When considering the IT spending environment, our planning assumption is that the current IT spending environment will remain adversely impacted by the current macroeconomic environment. We expect IT spending will improve throughout fiscal year 2010 and we expect our markets that we serve to return to normal historical growth rates during fiscal year 2010.

Results of Operations

We report our fiscal year on a 52/53-week period ending on the last Saturday in October. As is customary for companies that use the 52/53-week convention, every fifth year contains a 53-week year. As a result, our fiscal year 2009 is a 53-week fiscal year, with our second quarter of fiscal year 2009 consisting of 14 weeks, which is one week longer than a typical quarter. Fiscal year 2008 was a 52-week fiscal year. Our next 14-week quarter will be in the second quarter of fiscal year 2014.

The following table sets forth certain financial data for the three and six months ended May 2, 2009 and April 26, 2008, as a percentage of total net revenues, except for cost of revenues and gross margin (loss) which are indicated as a percentage of the respective segment net revenues. Prior period segment results have been conformed to the new measurements of segment financial reporting implemented in the first quarter of fiscal year 2009 as shown on the table below:

	Three Months Ended		Six Months Ended	
	May 2, 2009	April 26, 2008	May 2, 2009	April 26, 2008
Net revenues				
Data Storage	57.8%	82.7%	64.3%	83.9%
IP Products	24.8	0.6	18.9	0.6
Global Services	17.4	16.7	16.8	15.5
Total net revenues	100.0	100.0	100.0	100.0
Cost of revenues				
Data Storage	36.3	38.8	37.0	38.8
IP Products	74.2	140.1	71.7	155.0
Global Services	53.4	55.3	54.1	60.7
Total cost of revenues	48.7	42.1	46.5	42.8
Gross margin (loss)				
Data Storage	63.7	61.2	63.0	61.2
IP Products	25.8	(40.1)	28.3	(55.0)
Global Services	46.6	44.7	45.9	39.3
Total gross margin	51.3	57.9	53.5	57.2
Operating expenses:				
Research and development	19.0	17.2	17.6	17.0
Sales and marketing	20.7	19.7	19.0	18.9
General and administrative	4.2	3.8	4.2	3.7
Legal fees associated with indemnification obligations and other related costs, net	3.9	1.3	4.2	2.1
Provision for class action lawsuit	—	45.1	—	22.8
Amortization of intangible assets	4.2	2.2	3.7	2.3
Acquisition and integration costs	0.5	—	0.3	—
Restructuring costs and facilities lease benefits, net	0.5	(0.1)	0.2	(0.1)
In-process research and development	—	—	2.9	—
Goodwill and acquisition-related intangible assets impairment	10.5	—	5.7	—
Total operating expenses	63.5	89.2	57.8	66.7
Loss from operations	(12.2)	(31.3)	(4.3)	(9.5)
Interest and other income (loss), net	—	2.1	(0.4)	2.7
Interest expense	(5.2)	(0.5)	(5.1)	(0.4)
Gain (loss) on sale of investments, net	—	(1.3)	—	(1.0)
Loss before benefit from income taxes	(17.4)	(31.0)	(9.8)	(8.2)
Income tax benefit	(4.9)	(56.7)	(0.3)	(24.0)
Net income (loss)	(12.5)%	25.7%	(9.5)%	15.8%

Revenues. Our revenues are derived primarily from sales of our Data Storage products, particularly our family of SAN products, sales of our IP products, and our service and support offerings related to those products. Our fabric switches and directors connect our customers' servers and storage devices creating a SAN. In addition, our data networking solutions enable converged and complete end-to-end networking solutions from the edge to the core of our customers' networking infrastructures. The second quarter of fiscal year 2009 consisted of 14 weeks, which is one week more than a typical quarter.

Our total net revenues for the three months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	Three Months Ended					
	May 2, 2009	% of Net Revenues	April 26, 2008	% of Net Revenues	Increase/ (Decrease)	% Change
Data Storage	\$ 292,544	57.8%	\$ 293,605	82.7%	\$ (1,061)	(0.4)%
IP Products	125,490	24.8%	1,979	0.6%	123,511	6,240.5%
Global Services	88,266	17.4%	59,311	16.7%	28,955	48.8%
Total net revenues	\$ 506,300	100.0%	\$ 354,895	100.0%	\$ 151,405	42.7%

The increase in total net revenues for the three months ended May 2, 2009 as compared to total net revenues for the three months ended April 26, 2008 reflects growth in sales of IP Products and Global Services offerings. Data Storage product revenues for this period were relatively flat and reflect a 12.1% decrease in the number of ports shipped from our director and embedded switch products, offset by a mix shift from 4 Gigabit director and embedded switch products to 8 Gigabit director and embedded switch products, which carry a higher price per port. The increase in revenues from IP Products was due to sales of network switching and router products as a result of our acquisition of Foundry in December 2008. The increase in Global Services revenues was a result of the acquisitions of Foundry in December 2008 and Strategic Business Systems, Inc. ("SBS") in March 2008, and the continued expansion of our installed base.

Our total net revenues for the six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	Six Months Ended					
	May 2, 2009	% of Net Revenues	April 26, 2008	% of Net Revenues	Increase/ (Decrease)	% Change
Data Storage	\$ 603,323	64.3%	\$ 589,786	83.9%	\$ 13,537	2.3%
IP Products	177,311	18.9%	3,743	0.6%	173,568	4,637.2%
Global Services	157,257	16.8%	109,214	15.5%	48,043	44.0%
Total net revenues	\$ 937,891	100.0%	\$ 702,743	100.0%	\$ 235,148	33.5%

The increase in total net revenues for the six months ended May 2, 2009 as compared to total net revenues for the six months ended April 26, 2008 reflects growth in sales of Data Storage products, IP Products and Global Services offerings. The increase in Data Storage product revenues for the period reflects a 4.1% increase in the number of ports shipped due to our continued growth in the director and embedded switch market, as well as a mix shift from 4 Gigabit director and embedded switch products to 8 Gigabit director and embedded switch products, which carry a higher price per port, partially offset by a 4.5% decrease in average selling price per port. The increase in revenues from IP Products was due to sales of network switching and router products as a result of our acquisition of Foundry in December 2008, partially offset by a decrease in the volume of our Files business. The increase in Global Services revenues was a result of the acquisitions of Foundry in December 2008 and SBS in March 2008, and the continued expansion of our installed base.

For the three and six months ended May 2, 2009, the declines in average selling prices were the result of a continuing competitive pricing environment, offset by a mix shift to higher port density and price per port products. We believe that the IT spending environment remains cautious due to the uncertain macroeconomic environment and our business reflects a decrease in overall market demand, partially offset by an increase in our market share. We believe the increase in the number of IP Products ports shipped reflects higher demand for our products due primarily to the Foundry acquisition.

Going forward, we expect the number of ports shipped to fluctuate depending on the demand for our existing and recently introduced IP Products and Data Storage products as well as the timing of product transitions by our OEM customers. We currently expect that average selling prices per port will likely decline at rates consistent with historical rates of low single digits per quarter, however there are risks that pricing pressure could accelerate due to macroeconomic issues, new product introductions by us or our competitors, or other factors. Historically, our first and fourth fiscal quarters are seasonally stronger quarters from a revenue perspective than our second and third fiscal quarters.

Our total net revenues by geographical area for the three months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	Three Months Ended					
	May 2, 2009	% of Net Revenues	April 26, 2008	% of Net Revenues	Increase/ (Decrease)	% Change
Domestic	\$ 349,914	69.1%	\$ 220,869	62.2%	\$ 129,045	58.4%
International	156,386	30.9%	134,026	37.8%	22,360	16.7%
Total net revenues	\$ 506,300	100.0%	\$ 354,895	100.0%	\$ 151,405	42.7%

Our total net revenues by geographical area for the six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	Six Months Ended					
	May 2, 2009	% of Net Revenues	April 26, 2008	% of Net Revenues	Increase/ (Decrease)	% Change
Domestic	\$ 626,085	66.8%	\$ 437,896	62.3%	\$ 188,189	43.0%
International	311,806	33.2%	264,847	37.7%	46,959	17.7%
Total net revenues	\$ 937,891	100.0%	\$ 702,743	100.0%	\$ 235,148	33.5%

Historically, domestic revenues have accounted for between 56% and 69% of total net revenues. International revenues primarily consist of sales to customers in Western Europe, the greater Asia Pacific region and Japan. For the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008, international revenues decreased as a percentage of total net revenues primarily as a result of the shift to North America due to the Foundry acquisition. Revenues are attributed to geographic areas based on where our products are shipped. However, certain OEM customers 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 customers, 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 revenue is concentrated among a relatively small number of OEM customers. For the three months ended May 2, 2009, three customers each represented ten percent or more of our total net revenues for a combined total of 43% of our total net revenues. For the three months ended April 26, 2008, the same three customers each represented ten percent or more of our total net revenues for a combined total of 65% of our total net revenues. The decrease in the percentage reflects the acquisition of Foundry and its dispersion of revenue among a non-OEM customer base. 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 customers and, as a result of the Foundry acquisition, to the U.S. government or individual agencies within the U.S. government. 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.

A majority of our trade receivable balance is derived from sales to OEM partners in the computer storage and server industry. As of May 2, 2009, two customers accounted for 14% and 11%, respectively, of total accounts receivable. As of October 25, 2008, three customers accounted for 30%, 17% and 14%, respectively, of total accounts receivable. We perform ongoing credit evaluations of our customers and generally do not require collateral 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.

Gross margin (loss). Gross margin (loss) as stated below is indicated as a percentage of the respective segment net revenues. Gross margin (loss) for the three months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	Three Months Ended					
	May 2, 2009	% of Net Revenues	April 26, 2008	% of Net Revenues	Increase/ (Decrease)	% Points Change
Data Storage	\$ 186,290	63.7%	\$ 179,750	61.2%	\$ 6,540	2.5%
IP Products	32,370	25.8%	(794)	(40.1)%	33,164	65.9%
Global Services	41,133	46.6%	26,497	44.7%	14,636	1.9%
Total gross margin	\$ 259,793	51.3%	\$ 205,453	57.9%	\$ 54,340	(6.6)%

Total gross margin for the three months ended May 2, 2009 increased in absolute dollars by \$54.3 million and was 51.3%, a decrease of 6.6 percentage points from 57.9% for the three months ended April 26, 2008. The decrease in total gross margin percentage for the three months ended May 2, 2009 as compared to the three months ended April 26, 2008 was primarily due to the increased mix of IP Products revenue, which carries a lower overall gross margin, increased stock-based compensation expense, and amortization of intangible assets acquired under the Foundry acquisition. For the three months ended May 2, 2009, Data Storage product costs relative to net revenues decreased by 2.5% as compared to the three months ended April 26, 2008. This was primarily the result of a 1.2% decrease in manufacturing costs, a 1.3% decrease in product costs as product mix shifted from higher cost 4 Gigabit platform product to lower cost 8 Gigabit platform product for the three months ended May 2, 2009 as compared to the three months ended April 26, 2008, partially offset by a 0.4% increase in stock-based compensation. For the three months ended May 2, 2009, IP Products costs relative to net revenues decreased by 65.9% as compared to the three months ended April 26, 2008 primarily due to the Foundry acquisition. The gross loss in IP Products for the three months ended April 26, 2008 reflects the former Files operating segment, which has been included within the IP Products reportable segment for the three months ended May 2, 2009. For the three months ended May 2, 2009, Global Services operating costs relative to net revenues decreased by 1.9% as compared to the three months ended April 26, 2008. This was primarily due to a 4.4% decrease in service and support spending relative to net revenues as a result of additional revenue generated from the Foundry and SBS acquisitions, partially offset by a 1.9% increase in stock-based compensation and a 0.6% increase in amortization of intangible assets as a result of the Foundry acquisition.

Gross margin (loss) for the six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	Six Months Ended					
	May 2, 2009	% of Net Revenues	April 26, 2008	% of Net Revenues	Increase/ (Decrease)	% Points Change
Data Storage	\$ 379,906	63.0%	\$ 361,185	61.2%	\$ 18,721	1.8%
IP Products	50,163	28.3%	(2,060)	(55.0)%	52,223	83.3%
Global Services	72,139	45.9%	42,905	39.3%	29,234	6.6%
Total gross margin	\$ 502,208	53.5%	\$ 402,030	57.2%	\$ 100,178	(3.7)%

Total gross margin for the six months ended May 2, 2009 increased in absolute dollars by \$100.2 million and was 53.5%, a decrease of 3.7 percentage points from 57.2% for the six months ended April 26, 2008. The decrease in total gross margin percentage for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008 was primarily due to the increased mix of IP Products revenue, which carries a lower overall gross margin, increased stock-based compensation expense, and amortization of intangible assets acquired under the Foundry acquisition. For the six months ended May 2, 2009, Data Storage product costs relative to net revenues decreased by 1.8% as compared to the six months ended April 26, 2008. This was primarily the result of a 0.7% decrease in amortization of intangible assets related to the McDATA acquisition and a 1.1% decrease in product costs as product mix shifted from higher cost 4 Gigabit platform product to lower cost 8 Gigabit platform product for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. For the six months ended May 2, 2009, IP Products costs relative to net revenues decreased by 83.3% as compared to the six months ended April 26, 2008 primarily due to the Foundry acquisition. The gross loss in IP Products for the six months ended April 26, 2008 reflects the former Files operating segment, which has been included within the IP Products reportable segment for the six months ended May 2, 2009. For the six months ended May 2, 2009, Global Services operating costs relative to net revenues decreased by 6.6% as compared to the six months ended April 26, 2008. This was primarily due to an 8.1% decrease in service and support spending relative to net revenues as a result of additional revenue generated from the Foundry and SBS acquisitions, partially offset by a 0.9% increase in stock-based compensation and a 0.6% increase in amortization of intangible assets as a result of the Foundry acquisition.

Gross margin is primarily affected by average selling price per port, number of ports shipped and cost of revenues. As described above, we expect that average selling prices per port for our products will continue to decline at rates consistent with historical rates of low single digits, unless they are further affected by accelerated pricing pressures, new product introductions by us or our competitors, or other factors that may be beyond our control. We believe that we have the ability to partially mitigate the effect of declines in average selling price per port on gross margins through our product and manufacturing operations cost reductions. However, the average selling price per port could decline at a faster pace than we anticipate. If this dynamic occurs, we may not be able to reduce our costs fast enough to prevent a decline in our gross margins. In addition, we must continue to increase the current volume of ports shipped to maintain our current gross margins. If we are unable to offset future reductions in average selling price per port with reductions in product and manufacturing operations costs, or if as a result of future reductions in average selling price per port, our revenues do not grow, our gross margins would be negatively affected.

We recently introduced several new products and expect to introduce additional new products in the near future. As new or enhanced products are introduced, we must successfully manage the transition from older products in order 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. Our gross margins would likely be adversely affected if we fail to successfully manage the introductions of these new products. However, we currently anticipate that fluctuations in cost of revenues will be consistent with fluctuations in revenues.

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 IT and facilities expenses. The second quarter of fiscal year 2009 consisted of 14 weeks, which is one week more than a typical quarter.

R&D expenses for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$ 96,295	19.0%	\$ 61,131	17.2%	\$35,164	57.5%
Six months ended	\$164,746	17.6%	\$119,336	17.0%	\$45,410	38.1%

R&D expenses increased for the three months ended May 2, 2009 as compared to the three months ended April 26, 2008. This increase was primarily due to a \$20.5 million increase in salaries and wages, a \$2.4 million increase in nonrecurring engineering expenses, a \$1.3 million increase in expenses related to IT, facilities and other shared functions, and a \$9.8 million increase in stock-based compensation. The increase in salaries and wages and stock-based compensation was primarily the result of headcount growth from the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by the Company 5-day mandatory unpaid time off ("MUTO"). R&D expenses as a percent of total net revenues increased 1.8 percentage points in the three months ended May 2, 2009 compared with the three months ended April 26, 2008.

R&D expenses increased for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. This increase was primarily due to a \$27.3 million increase in salaries and wages, a \$2.5 million increase in expenses related to IT, facilities and other shared functions, and a \$12.5 million increase in stock-based compensation. The increase in salaries and wages and stock-based compensation was primarily the result of headcount growth from the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by the Company 5-day MUTO. R&D expenses as a percent of total net revenues increased 0.6 percentage point in the six months ended May 2, 2009 compared with the six months ended April 26, 2008.

We currently anticipate that R&D expenses, as a percent of revenue, for the three months ending August 1, 2009 will be relatively consistent with the three months ended May 2, 2009.

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 IT and facilities expenses. The second quarter of fiscal year 2009 consisted of 14 weeks, which is one week more than a typical quarter.

Sales and marketing expenses for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$104,898	20.7%	\$ 69,985	19.7%	\$34,913	49.9%
Six months ended	\$178,064	19.0%	\$133,160	18.9%	\$44,904	33.7%

Sales and marketing expenses increased for the three months ended May 2, 2009 as compared to the three months ended April 26, 2008. This increase was primarily due to a \$22.4 million increase in salaries and wages, a \$2.9 million increase in expenses related to IT, facilities and other shared functions, and an \$11.5 million increase in stock-based compensation, offset by a \$3.5 million decrease in advertising and conference expense. The increase in salaries and wages and stock-based compensation was primarily the result of headcount growth from the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by the Company 5-day MUTO. Sales and marketing expenses as a percent of total net revenues increased 1.0 percentage point in the three months ended May 2, 2009 compared with the three months ended April 26, 2008.

Sales and marketing expenses increased in absolute dollars for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. This increase was primarily due to a \$29.4 million increase in salaries and wages, a \$4.5 million increase in expenses related to IT, facilities and other shared functions, and a \$15.7 million increase in stock-based compensation, offset by a \$7.5 million decrease in advertising expense. The increase in salaries and wages and stock-based compensation was primarily the result of headcount growth from the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by the Company 5-day MUTO. Sales and marketing expenses as a percent of total net revenues was relatively unchanged in the six months ended May 2, 2009 compared with the six months ended April 26, 2008.

We currently anticipate that sales and marketing expenses, as a percent of revenue, for the three months ending August 1, 2009 will be relatively consistent with the three months ended May 2, 2009.

General and administrative expenses. General and administrative (“G&A”) expenses consist primarily of salaries and related expenses for corporate executives, finance, human resources and investor relations, as well as recruiting expenses, professional fees, corporate legal expenses, other corporate expenses, and IT and facilities expenses. The second quarter of fiscal year 2009 consisted of 14 weeks, which is one week more than a typical quarter.

General and administrative expenses for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$21,295	4.2%	\$13,316	3.8%	\$ 7,979	59.9%
Six months ended	\$39,683	4.2%	\$25,683	3.7%	\$14,000	54.5%

G&A expenses increased for the three months ended May 2, 2009 as compared to the three months ended April 26, 2008. This increase was primarily due to a \$6.7 million increase in salaries and wages, a \$2.8 million increase in outside services, a \$3.1 million increase in stock-based compensation expense, as well as a \$1.8 million increase in depreciation and amortization expense, partially offset by a \$4.5 million increase in IT and facilities expenses as a result of the Foundry acquisition, which are allocated to other functional groups. The increase in salaries and wages and stock-based compensation was primarily the result of headcount growth from the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by the Company 5-day MUTO. G&A expenses as a percent of total net revenues increased 0.4 percentage point in the three months ended May 2, 2009 compared with the three months ended April 26, 2008.

G&A expenses increased for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. This increase was primarily due to a \$12.7 million increase in salaries and wages, a \$3.9 million increase in outside services, a \$5.0 million increase in stock-based compensation expense, as well as a \$3.5 million increase in depreciation and amortization expense, partially offset by an \$8.3 million increase in IT and facilities expenses as a result of the Foundry acquisition, which are allocated to other functional groups. The increase in salaries and wages and stock-based compensation was primarily the result of headcount growth from the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by the Company 5-day MUTO. G&A expenses as a percent of total net revenues increased 0.5 percentage point in the six months ended May 2, 2009 compared with the six months ended April 26, 2008.

We currently anticipate that G&A expenses, as a percent of revenue, for the three months ending August 1, 2009 will be relatively consistent with the three months ended May 2, 2009.

Legal fees associated with indemnification obligations and other related costs, net. These expenses consist of professional legal fees for various matters, including applicable indemnification obligations, defense of the Company in legal proceedings, and actions to pursue claims by the Special Litigation Committee of the Board of Directors. Pursuant to the Company’s charter documents and indemnification agreements, we have certain indemnification obligations to our directors, officers and employees, as well as certain former directors, officers and employees. Pursuant to such obligations and claims filed by the Special Litigation Committee of the Board of Directors, we incurred expenses related to amounts paid to certain former directors, officers and employees of the Company who have been either convicted in criminal proceedings and/or are subject to ongoing SEC and civil actions in connection with Brocade’s historical stock option granting practices. We expect such expenses to be volatile and to increase materially during fiscal year 2009 due to the litigation filed on behalf of the Company by the Special Litigation Committee of the Board of Directors.

Legal fees associated with indemnification obligations and other related costs, net, for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$19,814	3.9%	\$ 4,789	1.3%	\$15,025	313.8%
Six months ended	\$39,113	4.2%	\$14,448	2.1%	\$24,665	170.7%

Legal fees increased for the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008. This increase was primarily due to an increase in legal expenses in connection with the litigation filed on behalf of the Company by the Special Litigation Committee of the Board of Directors.

Provision for class action lawsuit. This expense consists of our estimate to resolve our class action lawsuit.

Provision for class action lawsuit for the three and six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$—	—%	\$160,000	45.1%	\$(160,000)	(100.0)%
Six months ended	\$—	—%	\$160,000	22.8%	\$(160,000)	(100.0)%

Provision for class action lawsuit decreased for the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008. The \$160.0 million in provision for class action lawsuit was based on the preliminary settlement reached between Brocade and the lead plaintiffs for the federal securities class action on May 30, 2008. In December 2008, we deposited \$160.0 million into an escrow account on behalf of the plaintiff class to be released upon final approval of the proposed settlement by the Federal District Court. On January 26, 2009, the Federal District Court granted final approval of the settlement.

Amortization of intangible assets. Amortization of intangible assets for the three and six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$21,385	4.2%	\$ 7,909	2.2%	\$13,476	170.4%
Six months ended	\$34,614	3.7%	\$15,818	2.3%	\$18,796	118.8%

During the three and six months ended May 2, 2009, we recorded amortization of intangible assets related to the acquisitions of McDATA, Silverback Systems, Inc., SBS and Foundry. The increase in amortization of intangible assets for the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008 was primarily due to the acquisition of Foundry in December 2008 and SBS in March 2008.

We account for intangible assets in accordance with SFAS 142. Intangible assets are recorded based on estimates of fair value at the time of the acquisition and identifiable intangible assets are amortized on a straight-line basis over their estimated useful lives (see Note 4, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements).

Acquisition and integration costs. Acquisition and integration costs for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$2,391	0.5%	\$—	—%	\$2,391	100.0%
Six months ended	\$3,344	0.3%	\$—	—%	\$3,344	100.0%

For the three and six months ended May 2, 2009, we recorded acquisition and integration costs primarily for consulting services and other professional fees in connection with our integration of Foundry.

Restructuring costs and facilities lease benefits, net. Restructuring costs and facilities lease benefits, net, for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$2,329	0.5%	\$(477)	(0.1)%	\$2,806	588.7%
Six months ended	\$2,329	0.2%	\$(477)	(0.1)%	\$2,806	588.7%

Restructuring costs and facilities lease benefits, net, increased for the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008. This increase was primarily due to \$2.7 million in restructuring costs primarily related to severance payments in connection with the decision to no longer offer our suite of Files products, partially offset by a benefit of \$0.3 million related to estimated facilities lease losses, net of expected sublease income, recorded during the three months ended May 2, 2009. This benefit represents a change in estimate associated with the reoccupation of expected sublease space by us. We revised certain estimates and assumptions, including those related to estimated sublease rates, estimated time to sublease the facilities, expected future operating costs, and expected future use of the facilities.

In-process research and development. We did not record any in-process research and development (“IPR&D”) charge for the three months ended May 2, 2009 and April 26, 2008. IPR&D for the six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Six months ended	\$26,900	2.9%	\$—	—%	\$26,900	100.0%

On December 18, 2008, we completed our acquisition of Foundry, a performance and total solutions provider of network switching and routing. In connection with this acquisition, we recorded a \$26.9 million in-process research and development charge (see Note 3, “Acquisitions,” of the Notes to Condensed Consolidated Financial Statements).

The IPR&D was written off because the acquired technologies had not reached technological feasibility and had no alternative uses. Technological feasibility is defined as being equivalent to completion of a beta-phase working prototype in which there is no remaining risk relating to the development. At the time of the acquisition in December 2008, Foundry was developing new products in multiple product areas that qualify as IPR&D. These efforts included FastIron SuperX Family, FastIron CX, NetIron CER, TurboIron and various other projects. At the time of the acquisition, it was estimated that these IPR&D development efforts would be completed over the following 3 to 7 months at an estimated total cost of \$3.9 million. At May 2, 2009, the development efforts were continuing on schedule and within expected costs.

The value assigned to the Foundry IPR&D was determined by estimating costs to develop the purchased IPR&D into commercially viable products, estimating the resulting net cash flows from the projects when completed, and discounting the net cash flows to their present values. The revenue estimates used in the net cash flow forecasts were based on estimates of relevant market sizes and growth factors, expected trends in technology, and the nature and expected timing of new product introductions by Foundry and its competitors.

The rate utilized to discount the net cash flows to their present values was based on Foundry’s weighted-average cost of capital. The weighted-average cost of capital was adjusted to reflect the difficulties and uncertainties in completing each project and thereby achieving technological feasibility, the percentage of completion of each project, anticipated market acceptance and penetration, market growth rates, and risks related to the impact of potential changes in future target markets. Based on these factors, a discount rate of 12.5% was deemed appropriate for valuing the IPR&D.

The estimates used in valuing IPR&D were based upon assumptions believed to be reasonable but which are inherently uncertain and unpredictable. Assumptions may be incomplete or inaccurate, and unanticipated events and circumstances may occur.

Goodwill and acquisition-related intangible assets impairment. Goodwill and acquisition-related intangible assets impairment for the three and six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$53,306	10.5%	\$—	—%	\$53,306	100.0%
Six months ended	\$53,306	5.7%	\$—	—%	\$53,306	100.0%

Consistent with prior years, we selected the second fiscal quarter as the period in which the annual goodwill impairment test was to be completed. We completed the first step of the goodwill impairment test and determined that the fair value of the Files business fell below its carrying value. During the second quarter of fiscal year 2009, we made a decision to no longer offer our suite of Files products. After the acquisition of Foundry, Files was combined with ADC to create the ADC operating segment. The integration of Files into the ADC operating segment was at the preliminary stage when the decision was made to cease development of the Files business. Accordingly, we assessed the potential impairment of the goodwill and long-lived assets relating to the Files business on a standalone basis.

As a result of the goodwill impairment analysis, we determined that all of the goodwill and acquisition-related intangible assets associated with the Files business were impaired. During the three months ended May 2, 2009, we recorded a \$53.3 million impairment charge, which is comprised of a non-cash goodwill impairment charge of \$45.8 million and a non-cash acquisition-related intangible asset impairment charge of \$7.5 million (see Note 4, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements).

The excess of the fair value of the reporting unit is determined in the same manner as the amount of goodwill recognized in a business combination, which is the excess of the fair value of the reporting unit, as determined in the first step, over the aggregate fair values of the individual assets, liabilities, and identifiable intangibles as if the business were being acquired in a business combination. If the implied fair value in the "pro forma" business combination accounting as described above exceeds the goodwill assigned to the reporting unit, then there is no impairment. If the goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss recognized cannot exceed the amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted under the applicable accounting standards.

Prior to fiscal year 2009, we utilized two methods of estimating the fair values of reporting units, the income approach ("IA"), which utilizes discounted cash flows, and the market approach. As our market capitalization declined and as the technology sector volatility increased, we focused on methods that were more representative of a market participant's view. As a result, in fiscal year 2009, we relied primarily on the DCF method, using management projections for each reporting unit and risk-adjusted discount rates, as we considered it to be most reflective of a market participant's view of fair value given the current market conditions.

The DCF method used at each period-end utilized discount rates that we believe adequately reflect the risk and uncertainty in the technology markets generally and specifically in our internally developed earnings projections.

Interest and other income (loss), net. Interest and other income (loss), net, for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$ 90	—%	\$ 7,306	2.1%	\$ (7,216)	(98.8)%
Six months ended	\$(3,721)	(0.4)%	\$18,791	2.7%	\$(22,512)	(119.8)%

For the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008, the decrease in interest and other income (loss), net, was primarily related to a decrease in investment balances due to the Foundry acquisition. The decrease in interest and other income (loss), net, for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008 was also due to an increase of \$4.4 million in acquisition-related financing charges in the six months ended May 2, 2009.

Interest expense. Interest expense primarily represents the interest cost associated with our term loan and convertible subordinated debt (see Note 9, "Borrowings," of the Notes to Condensed Consolidated Financial Statements).

Interest expense for the three and six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$(26,398)	(5.2)%	\$(1,760)	(0.5)%	\$24,638	1,399.7%
Six months ended	\$(47,755)	(5.1)%	\$(3,281)	(0.4)%	\$44,474	1,355.3%

Interest expense increased for the three months ended May 2, 2009 as compared to the three months ended April 26, 2008 primarily as a result of \$26.1 million in interest expense on the term loan and the revolving credit facility which was obtained to

finance the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by \$2.0 million in capitalization of interest cost in connection with the development of the Company campus during the three months ended May 2, 2009.

Interest expense increased for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008 primarily as a result of \$47.6 million in interest expense on the term loan and the revolving credit facility which was obtained to finance the Foundry acquisition and the extra week during the second quarter of our fiscal year 2009, partially offset by \$4.0 million in capitalization of interest cost in connection with the development of the Company campus during the six months ended May 2, 2009.

We obtained the term loan during the fourth fiscal quarter of 2008. As of May 2, 2009, the carrying value of the outstanding balance of our term loan was \$984.0 million. As of May 2, 2009 and April 26, 2008, the carrying value of the outstanding balance of our convertible subordinated debt assumed from the McDATA acquisition was \$170.7 million and \$168.6 million, respectively.

Gain (loss) on sale of investments, net. Gain (loss) on sale of investments, net, for the three and six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	<u>May 2, 2009</u>	<u>% of Net Revenues</u>	<u>April 26, 2008</u>	<u>% of Net Revenues</u>	<u>Increase/ (Decrease)</u>	<u>% Change</u>
Three months ended	\$ 341	—%	\$(4,725)	(1.3)%	\$(5,066)	(107.2)%
Six months ended	\$(523)	—%	\$(6,949)	(1.0)%	\$(6,426)	(92.5)%

We had \$0.3 million in gain on sale of investments for the three months ended May 2, 2009 as compared to the \$4.7 million in loss on sale of investments for the three months ended April 26, 2008, which was primarily due to a loss of \$4.2 million on the sale of our equity investment in a publicly traded company and a loss of \$0.5 million on the disposition of portfolio investments at amounts below the carrying value.

Loss on sale of investments, net, decreased for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. The \$0.5 million in loss on sale of investments for the six months ended May 2, 2009 was due to a loss of \$0.5 million on the disposition of portfolio investments at amounts below the carrying value. The \$6.9 million in loss on sale of investments for the six months ended April 26, 2008 was due to a loss of \$6.0 million on the sale of our equity investment in a publicly traded company and a loss of \$0.9 million on the disposition of portfolio investments at amounts below the carrying value.

The carrying value of our equity investments in non-publicly traded companies at May 2, 2009 and April 26, 2008 was \$6.8 million and \$5.0 million, respectively.

Benefit from income taxes. Benefit from income taxes and the effective tax rates for the three and six months ended May 2, 2009 and April 26, 2008 were as follows (in thousands, except effective tax rates):

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>May 2, 2009</u>	<u>April 26, 2008</u>	<u>May 2, 2009</u>	<u>April 26, 2008</u>
Benefit from income taxes	\$(24,769)	\$(201,757)	\$(2,741)	\$(168,600)
Effective tax rate	28.2%	182.8%	3.0%	293.8%

Our effective tax rate decreased for the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008 primarily due to the release of the valuation allowance during the three months ended April 26, 2008, and interest and legal expenses resulting in U.S. taxable loss for the three and six months ended May 2, 2009.

We currently expect the effective tax rate for fiscal year 2009 to be higher than fiscal year 2008. This is a result of the valuation allowance release that created a large benefit in fiscal year 2008. Factors such as the successful integration of Foundry's international operations and associated structuring could affect the level of our foreign revenues and earnings. As estimates and judgments are used to project such international earnings, the impact to our tax provision could vary if the current planning or assumptions change. 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.

To the extent that international revenues and earnings differ from those historically achieved, a factor largely influenced by the buying behavior of our OEM partners or by unfavorable changes in tax laws and regulations, our income tax provision could change.

Estimates and judgments are required in the calculation of certain tax liabilities and in the determination of the recoverability of certain deferred tax assets, which arise from variable stock option expense, net operating losses, tax carryforwards and temporary differences between the tax and financial statement recognition of revenues and expenses.

We adopted FIN 48 effective at the beginning of fiscal year 2008. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of an income tax position taken or expected to be taken on a tax return. Under FIN 48, recognition of a tax position is determined when it is more likely than not that a tax position will be sustained upon examination, including resolution of any related appeals or litigation processes. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement with a taxing authority.

The calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of complex tax laws. Although FIN 48 provides further clarification on the accounting for uncertainty in income taxes recognized in the financial statements, the threshold and measurement attribute prescribed by the pronouncement will continue to require significant judgment by management. Resolution of these uncertainties in a manner inconsistent with our expectations could have a material impact on our results of operations.

The IRS and other tax authorities regularly examine our income tax returns. In May 2008, the IRS completed its field examination of our federal income tax return for the year ended October 25, 2003 and issued an RAR. The IRS is contesting our transfer pricing for the cost sharing and buy-in arrangements with our foreign subsidiaries. The IRS' proposed adjustment would offset approximately \$306.0 million of our net operating loss carryforwards. The IRS' proposed adjustment resulted in a tax assessment of approximately \$6.4 million, excluding penalties and interest. The IRS may make similar claims against our transfer pricing arrangements in future examinations. In June 2008, we filed a protest with the Appeals Office of the IRS to challenge the IRS' proposed adjustment and assessment. In addition, the IRS is currently examining our federal income tax returns for the three tax years ended October 28, 2006. Due to the net operating loss and credit carryforwards, our U.S. federal, state, and local income tax returns remain open for examination. We are generally not subject to non-U.S. income tax examinations for years before 2000. In February 2009, the IRS commenced an examination of Foundry's federal income tax returns for the years ended December 31, 2006 and 2007. We are not aware of any proposed adjustments, but the audit is still ongoing. We believe we have adequate reserves for all open tax years.

We do not expect resolution of the IRS audit during the next twelve months and accordingly do not expect a material increase or decrease to our unrecognized tax benefits. We believe that our reserves for unrecognized tax benefits are adequate for open tax years.

Stock-based compensation expense. Stock-based compensation expense for the three and six months ended May 2, 2009 and April 26, 2008 was as follows (in thousands):

	May 2, 2009	% of Net Revenues	April 26, 2008	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	\$40,111	7.9%	\$11,176	3.1%	\$28,935	258.9%
Six months ended	\$58,192	6.2%	\$19,648	2.8%	\$38,544	196.2%

Stock-based compensation expense increased for the three and six months ended May 2, 2009 as compared to the three and six months ended April 26, 2008. This increase was primarily due to the acquisition of Foundry in December 2008.

Stock-based compensation expense was included in the following line items on our Condensed Consolidated Statements of Operations for the three and six months ended May 2, 2009 and April 26, 2008 (in thousands):

	Three Months Ended May 2, 2009	Three Months Ended April 26, 2008	Six Months Ended May 2, 2009	Six Months Ended April 26, 2008
Cost of revenues	\$ 6,825	\$ 2,371	\$ 10,134	\$ 4,863
Research and development	12,329	2,528	17,670	5,152
Sales and marketing	14,684	3,146	20,873	5,131
General and administrative	6,273	3,131	9,515	4,502
Total stock-based compensation	<u>\$ 40,111</u>	<u>\$ 11,176</u>	<u>\$ 58,192</u>	<u>\$ 19,648</u>

Liquidity and Capital Resources

	<u>May 2, 2009</u>	<u>October 25, 2008</u> (in thousands)	<u>Increase/ (Decrease)</u>
Cash and cash equivalents	\$ 222,626	\$ 453,884	\$ (231,258)
Short-term investments	14,239	152,741	(138,502)
Marketable equity securities	—	177,380	(177,380)
Long-term investments	—	36,120	(36,120)
Restricted cash	—	1,075,079	(1,075,079)
Total	<u>\$ 236,865</u>	<u>\$ 1,895,204</u>	<u>\$ (1,658,339)</u>
Percentage of total assets	7%	57%	

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 operating results, 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.”

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. We expect to repay our convertible subordinated debt due on February 15, 2010 through cash from operations, by drawing on the revolving credit facility or through debt refinancing made available by various foreign and domestic financial institutions, although we cannot be certain whether such financing would be commercially reasonable or on Company-favorable terms. In addition to access to capital markets, we could also monetize certain assets, including our real estate holdings, or slow down the development of our Company campus. 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, short-term investments, marketable equity securities, long-term investments and restricted cash as of May 2, 2009 decreased by \$1,658.3 million over the balance as of October 25, 2008. For the six months ended May 2, 2009, we used \$56.4 million in cash from operating activities, which was lower than our net loss for the six months ended May 2, 2009, as a result of adjustments to net loss for non-cash items related to depreciation and amortization, non-cash compensation expense, asset impairment and in-process research and development, as well as a decrease in inventory, partially offset by the \$160.0 million payment of the liability associated with the settlement of the class action lawsuit and a decrease in accounts payable and accrued employee compensation. Days sales outstanding in receivables for the six months ended May 2, 2009 was 51 days, compared with 43 days for the six months ended April 26, 2008.

Net cash used in investing activities for the six months ended May 2, 2009 totaled \$119.3 million and was primarily the result of \$1,297.5 million in cash paid in connection with the Foundry acquisition and \$73.5 million in purchases of property and equipment, offset by \$1,075.1 million in restricted cash released to finance a portion of the Foundry acquisition and \$176.6 million in proceeds resulting from maturities and sales of short-term investments and long-term investments.

Net cash used in financing activities for the six months ended May 2, 2009 totaled \$55.3 million and was primarily the result of payment of principal related to the term loan of \$75.0 million, payment of senior underwriting fees related to the term loan of \$30.5 million, offset by proceeds from the issuance of common stock from ESPP and stock option exercises of \$37.2 million and proceeds from the revolving credit facility of \$14.1 million.

Net proceeds from the issuance of common stock in connection with employee participation in employee stock programs 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 employee stock programs will vary.

Six Months Ended May 2, 2009 Compared to Six Months Ended April 26, 2008

Operating Activities. Net cash used in operating activities increased by \$254.7 million for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. The increase was primarily due to net loss in the six months ended May 2, 2009, the \$160.0 million payment of the liability associated with the settlement of the class action lawsuit and increased payments with respect

to accounts payable and accrued employee compensation during the six months ended May 2, 2009, partially offset by no release of the valuation allowance related to our deferred tax assets in the six months ended May 2, 2009 as in the six months ended April 26, 2008, as well as an increase in adjustments to net loss for non-cash items related to depreciation and amortization, non-cash compensation expense, asset impairment and in-process research and development.

Investing Activities. Net cash used in investing activities increased by \$236.0 million for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. The increase was primarily due to cash paid in connection with the Foundry acquisition, increased purchases of property and equipment and decreased proceeds from the maturities and sales of investments and marketable equity securities, partially offset by decreased purchases of short-term and long-term investments, and an increase in restricted cash which was released to finance a portion of the Foundry acquisition.

Financing Activities. Net cash used in financing activities decreased by \$61.3 million for the six months ended May 2, 2009 as compared to the six months ended April 26, 2008. The decrease was primarily due to decreased common stock repurchases and increased proceeds from the issuance of common stock from ESPP and stock option exercises and proceeds from the revolving line of credit, partially offset by the payment of principal and senior underwriting fees related to the term loan.

Liquidity

Manufacturing and Purchase Commitments. We have manufacturing agreements with Foxconn, Sanmina, Flextronics and Celestica, collectively “the CMs,” under which we provide twelve-month product forecasts and place purchase orders in advance of the scheduled delivery of products to our customers. The required lead time for placing orders with the CMs depends on the specific product. As of May 2, 2009, our aggregate commitment for inventory components used in the manufacture of our products was \$213.1 million, which we expect to utilize during future normal ongoing operations, net of a purchase commitments reserve of \$28.2 million, as reflected on the Condensed Consolidated Balance Sheet. Although the purchase orders we place with the CMs are cancelable, the terms of the agreements require us to purchase all inventory components not returnable, usable by, or sold to, other customers of the aforementioned contract manufacturers. 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.

Guarantee. On November 18, 2003, we purchased a previously leased building located near our San Jose headquarters and issued a \$1.0 million guarantee as part of the purchase agreements.

Company Campus Contractual Obligations. On May 23, 2008, we purchased property located in San Jose, California, which consists of three unimproved building parcels that are entitled for approximately 562,000 square feet of space in three buildings. The total purchase price for the property was \$50.9 million. In connection with the purchase, we also engaged a third party as development manager to manage the development and construction of improvements on the property. Our obligation for development and construction of three buildings and a parking garage on the purchased property is approximately \$173.0 million (in addition to the purchase price for the property), payable in various installments through approximately June 2010. In connection with the purchase, we also obtained a four-year option, exercisable at our sole discretion, to purchase a fourth unimproved approximate four acre parcel for a fixed price of approximately \$26.0 million. We plan to develop the land through June 2010 and finance the purchase and the development through operating cash flows.

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.

The IRS and other tax authorities regularly examine our income tax returns. In May 2008, the IRS completed its field examination of our federal income tax return for the year ended October 25, 2003 and issued an RAR. The IRS is contesting our transfer pricing for the cost sharing and buy-in arrangements with our foreign subsidiaries. The IRS’ proposed adjustment would offset approximately \$306.0 million of our net operating loss carryforwards. The IRS’ proposed adjustment resulted in a tax assessment of approximately \$6.4 million, excluding penalties and interest. The IRS may make similar claims against our transfer pricing arrangements in future examinations. In June 2008, we filed a protest with the Appeals Office of the IRS to challenge the IRS’ proposed adjustment and assessment. In addition, the IRS is currently examining our federal income tax returns for the three tax years ended October 28, 2006. Due to net operating loss and credit carryforwards, our U.S. federal, state, and local income tax returns remain open for examination. We are generally not subject to non-U.S. income tax examinations for years before 2000. In February 2009, the IRS commenced an examination of Foundry’s federal income tax returns for the years ended December 31, 2006 and 2007. We are not aware of any proposed adjustments, but the audit is still ongoing. We believe we have adequate reserves for all open tax years.

Senior Secured Credit Facility.

General

On October 7, 2008, we entered into a credit agreement with the following lenders, Bank of America, N.A., Morgan Stanley Senior Funding, Inc., HSBC Bank USA National Association and Keybank National Association. The credit agreement provides for (i) a five-year \$1,100.0 million term loan facility and (ii) a five-year \$125.0 million revolving credit facility, which includes a \$25.0 million swing line loan subfacility and a \$25.0 million letter of credit subfacility.

The net proceeds of the term loan facility were used to finance a portion of our acquisition of Foundry. In addition to the term loan facility, during the six months ended May 2, 2009, we drew \$14.1 million from the \$125.0 million revolving credit facility to finance a small portion of the merger. We may draw additional proceeds from the revolving credit facility in the future for ongoing working capital and other general corporate purposes. As of May 2, 2009, \$14.1 million was outstanding under the revolving credit facility.

Loans under the Senior Secured Credit Facility bear interest, at our option, at a rate equal to either the LIBOR rate, plus an applicable margin equal to 4.0% per annum or the prime lending rate, plus an applicable margin equal to 3.0% per annum. The applicable margin with respect to revolving loans is subject to adjustment based on our consolidated senior secured leverage ratio, as defined in the credit agreement. The LIBOR rate floor is 3.0% per annum and the prime lending rate floor is 4.0% per annum, in each case, for the life of the Senior Secured Credit Facility. For the six months ended May 2, 2009, the weighted-average interest rate on the term loan was 7.0%.

The proceeds of the term loan were deposited in a restricted securities account pending the closing of the merger and other release conditions, and are reported as long-term restricted cash on the Condensed Consolidated Balance Sheet as of October 25, 2008. On December 19, 2008, the proceeds of the term loan were released from the restricted securities account to fund the merger. As of May 2, 2009, we recorded the current portion of the liability associated with the term loan of \$43.6 million, net of the debt discount of \$11.4 million, as "Current portion of long-term debt," and we recorded the long-term portion of the liability associated with the term loan of \$940.4 million, net of the debt discount of \$29.6 million, as "Long-term debt, net of current portion" on the Condensed Consolidated Balance Sheet.

We are permitted to make voluntary prepayments at any time (without payment of a premium, other than in the case of a repricing transaction in respect of the term loan facility), and are required to make mandatory prepayments on the term loan (without payment of a premium) with (i) net cash proceeds from non-ordinary course asset sales (subject to reinvestment rights and other exceptions), (ii) net cash proceeds from issuances of debt (other than certain permitted debt), (iii) a percentage of 50% or 0% of our excess cash flow, based on our consolidated senior secured leverage ratio, beginning with the fiscal year ending October 27, 2009, and (iv) casualty proceeds and condemnation awards (subject to reinvestment rights and other exceptions). We are required to pay quarterly installments on the term loan equal to an aggregate annual amount of 5% of the original principal amount thereof in the first and second year, 10% in the third year, 20% in the fourth year and 60% in the fifth year, with any remaining balance payable on the final maturity date of the term loan. Upon a repricing of the term loan (including through a refinancing) that results in the weighted-average yield or applicable rate of such term loan immediately after such repricing being lower than such yield or rate immediately prior to such repricing, a 2.0% premium is payable during the first year following the closing and a 1.0% premium is payable during the second year following the closing.

Fees totaling \$27.6 million associated with the acquisition have been capitalized as deferred financing costs, with \$4.0 million amortized as of May 2, 2009. As of May 2, 2009, the short-term portion of the deferred financing costs was \$6.7 million and is reported within prepaid expenses and other current assets on the Condensed Consolidated Balance Sheet. As of May 2, 2009, the long-term portion of the deferred financing costs was \$16.9 million and is reported within other assets on the Condensed Consolidated Balance Sheet. All fees capitalized are related to the term loan facility. The deferred financing costs are being amortized using the effective interest method over the five-year term of the debt.

Guarantees and Collateral

The obligations of the Company and its subsidiary guarantors under the Senior Secured Credit Facility and the related guarantees thereunder are secured, subject to customary permitted liens and other agreed upon exceptions, by (i) a first priority pledge of all of the equity interests of each of the Company's direct and indirect subsidiaries and (ii) a perfected first priority interest in and

mortgages on all tangible and intangible assets of the Company and each subsidiary guarantor, except, in the case of a foreign subsidiary, to the extent such pledge would be prohibited by applicable law or would result in materially adverse tax consequences (limited, in the case of a first-tier foreign subsidiary, to 65% of the voting stock and 100% of non-voting stock of such first-tier foreign subsidiary). In addition, the term loan has not been registered with the SEC as of May 2, 2009.

Covenants

The credit 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, dividends and other distributions. The credit agreement contains financial covenants that require us 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. The credit agreement also includes customary events of default, including cross-defaults on our material indebtedness and change of control. We were in compliance with all applicable covenants as of May 2, 2009.

The majority 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. We have the following resources available to obtain short-term or long-term financing, if we need additional liquidity, as of May 2, 2009 (in thousands):

	Original Amount Available	May 2, 2009		October 25, 2008	
		Used	Available	Used	Available
Revolving credit facility	\$ 125,000	\$ 14,050	\$ 110,950	\$ —	\$ 125,000
Total	\$ 125,000	\$ 14,050	\$ 110,950	\$ —	\$ 125,000

Contractual Obligations

The following table summarizes our contractual obligations, including interest expense, and commitments as of May 2, 2009 (in thousands):

	Total	Less than 1 Year	1—3 Years	3—5 Years	More than 5 Years
Contractual Obligations:					
Term loan (1)	\$ 1,269,318	\$ 124,471	\$ 372,472	\$ 772,375	\$ —
Convertible subordinated debt (1)	176,381	176,381	—	—	—
Revolving credit facility (1)	14,055	14,055	—	—	—
Non-cancelable operating leases (2)	117,336	44,247	34,630	17,208	21,251
Purchase commitments, gross (3)	213,082	213,082	—	—	—
Company campus capital expenditures (4)	95,200	90,749	4,451	—	—
Total contractual obligations	\$ 1,885,372	\$ 662,985	\$ 411,553	\$ 789,583	\$ 21,251
Other Commitments:					
Standby letters of credit	\$ 2,001	\$ n/a	\$ n/a	\$ n/a	\$ n/a
Guarantee	\$ 1,015	\$ n/a	\$ n/a	\$ n/a	\$ n/a
Unrecognized tax benefits and related accrued interest (5)	\$ 154,078	\$ n/a	\$ n/a	\$ n/a	\$ n/a

(1) Amount reflects total anticipated cash payments, including anticipated interest payments, but does not include any fair value adjustments or discount.

(2) Amount excludes contractual sublease income of \$33.1 million, which consists of \$5.0 million to be received in less than 1 year, \$8.1 million to be received in 1 to 3 years, \$8.4 million to be received in 3 to 5 years and \$11.6 million to be received in more than 5 years.

- (3) Amount reflects total gross purchase commitments under our manufacturing agreements with third-party contract manufacturers. Of this amount, we have accrued \$28.2 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) Amount reflects \$95.2 million in capital expenditures in connection with the development of the corporate campus. Including the costs incurred to date of \$136.7 million, the total contractual obligation on the Company campus is approximately \$231.9 million.
- (5) As of May 2, 2009, we had a liability for gross unrecognized tax benefits of \$149.2 million and a net accrual for the payment of related interest and penalties of \$4.8 million, none of which is expected to be paid within one year. We are unable to make a reasonably reliable estimate of when cash settlement with a taxing authority will occur.

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. Purchases have been made, from time to time, in the open market or by privately negotiated transactions and have been funded from available working capital. The number of shares purchased and the timing of purchases have been based on the level of our cash balances, general business and market conditions, and other factors, including alternative investment opportunities. During the third fiscal quarter of 2008, we suspended our share repurchase program due to the then pending Foundry acquisition. We are prioritizing our use of cash for debt repayment following the close of the Foundry acquisition. As such, we made no share repurchases for the three months ended May 2, 2009. Approximately \$414.1 million remains authorized for future repurchases under this program as of May 2, 2009.

Critical Accounting Policies and Estimates

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate, on an ongoing basis, our estimates and judgments, including, but not limited to, those related to sales allowances, bad debts, stock-based compensation, warranty obligations, excess inventory and purchase commitments, restructuring costs, facilities lease losses, contingencies, litigation, income taxes and investments. We base our estimates on historical experience and assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The methods, estimates and judgments we use in applying our most critical accounting policies have a significant impact on the results that we report in our Condensed Consolidated Financial Statements. The SEC considers an entity's most critical accounting policies to be those policies that are both most important to the portrayal of a company's financial condition and results of operations, and those that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about matters that are inherently uncertain at the time of estimation.

Our management believes that there have been no material changes to our critical accounting policies and estimates during the six months ended May 2, 2009 as compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 25, 2008, with the exception of our accounting policy for fair value measurement as described in Note 2, "Summary of Significant Accounting Policies" and Note 7, "Fair Value Measurements," and our accounting policy for revenue recognition as described below.

Revenue recognition and allowances for sales allowances, sales programs and doubtful accounts. Certain of our products are integrated with software that is essential to the functionality of the equipment. Additionally, we provide unspecified software upgrades and enhancements related to the equipment through our maintenance contracts for most of our products. Accordingly, we account for revenue from these products in accordance with SOP 97-2 and all related interpretations. For sales of products where software is incidental to the equipment, including products acquired from Foundry, we apply the provisions of SAB 104 and all related interpretations. Product revenue is generally recognized when all of the following criteria have been met:

- Persuasive evidence of an arrangement exists;
- Delivery has occurred;
- The fee is fixed or determinable; and

- Collection is probable.

Products related to our acquisition of Foundry are generally accounted for under SAB 104. As we introduce products based on Foundry's technology, which are determined to include software that is essential to the functionality of the equipment, then such new products will be accounted for using SOP 97-2 and all related interpretations.

For newly introduced SAN products, many of our large OEM customers require a product qualification period during which our products are tested and approved by the OEM customers for sale to their customers. Revenue recognition and related cost are deferred for shipments to new OEM customers and for shipments of newly introduced products to existing OEM customers until satisfactory evidence of completion of the product qualification has been received from the OEM customer. In addition, revenue from sales to our master reseller customers is recognized in the same period in which the product is actually sold by the master reseller (sell-through).

We reduce revenue for estimated sales allowances, sales programs, and other allowances at the time of shipment. Sales allowances, sales programs, and other allowances are estimated based on historical sales levels, the timing and magnitude of historical sales returns, claims under sales programs and other allowances, and a projection of this experience into the future. In addition, we maintain allowances for doubtful accounts, which are also accounted for as a reduction in revenue, for estimated losses resulting from the inability of our customers to make required payments. We analyze accounts receivable, historical collection patterns, customer concentrations, customer creditworthiness, current economic trends, changes in customer payment terms and practices, and customer communication when evaluating the adequacy of the allowance for doubtful accounts. If actual sales returns, sales programs, and other allowances exceed our estimates, or if the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances and charges may be required.

Service revenue consists of training and maintenance arrangements, including PCS, customer support services and other professional services. PCS services are offered under renewable, annual fee-based contracts or as part of multiple-element arrangements and typically include upgrades and enhancements to our operating system software and telephone support. Revenue related to PCS elements is deferred and recognized ratably over the contractual period. PCS contracts are typically one to three years in length.

Customer support services are offered under renewable, fee-based contracts which provide customers with hardware repair and replacement parts, access to technical assistance, and unspecified software updates and upgrades on a when-and-if available basis. Revenue from customer support services contracts is deferred and recognized ratably over the contractual support period, in accordance with FTB 90-1. Customer support services contracts are typically one to five years in length.

Professional services are offered under fee-based contracts or as part of multiple-element arrangements. Professional services revenue is recognized when services are completed. Training revenue is recognized upon completion of the training.

Our multiple-element product offerings include computer hardware and software products and support services. We also sell certain software products and support services separately. For certain of our products, software is generally essential to the functionality of our hardware products, and are, therefore, accounted for in accordance with SOP 97-2. We allocate revenue to each element in a multiple-element arrangement based upon vendor-specific objective evidence ("VSOE") of the fair value of the element, or if VSOE is not available for the delivered element, by application of the residual method. In the application of the residual method, we allocate revenue to the undelivered elements based on VSOE for those elements and allocate the residual revenue to the delivered elements. VSOE of the fair value for an element is based upon the price charged when the element is sold separately. Revenue allocated to each element is then recognized when the basic revenue recognition criteria is met for each element. Changes in the inability to determine VSOE for an undelivered element in a multiple-element arrangement may affect the timing of revenue recognition. For sales of products that contain multiple elements and where software is incidental, we apply the provisions of EITF 00-21 to determine the separate units of accounting that exist within the arrangement. If more than one unit of accounting exists, the arrangement consideration is allocated to each unit of accounting using either the relative fair value method or the residual fair value method as prescribed by EITF 00-21. Revenue is recognized for each unit of accounting when all the revenue recognition criteria have been met for that unit of accounting.

Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), "*Business Combinations*," which was subsequently amended in April 2009 by FSP FAS 141(R)-1, "*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*." SFAS 141R requires the acquirer in a business

combination to recognize assets and liabilities assumed at their fair values and to recognize acquisition-related costs separately from the acquisition. In circumstances where the acquisition-date fair value for a contingency cannot be determined during the measurement period and it is concluded that it is probable that an asset or liability exists as of the acquisition date and the amount can be reasonably estimated, a contingency is recognized as of the acquisition date based on the estimated amount. SFAS 141R will be effective for us in fiscal year 2010, with early adoption prohibited. We expect the implementation of SFAS 141R will have an impact on our financial position and results of operations, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we consummate after the effective date of November 1, 2009.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, *“Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51.”* SFAS 160 will change the accounting and reporting for minority interests which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 is effective for financial statements issued for fiscal years beginning on or after December 15, 2008, and interim periods within those fiscal years. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. We are currently assessing the impact of SFAS 160, but do not expect the adoption to have a material impact on our financial position, results of operations, and cash flows.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, *“The Hierarchy of Generally Accepted Accounting Principles.”* SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS 162 will become effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *“The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.”* We currently adhere to the hierarchy of generally accepted accounting principles as presented in SFAS 162, and adoption of SFAS 162 is not expected to have a material impact on our financial position, results of operations, and cash flows.

In May 2008, the FASB issued FSP APB 14-1, *“Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement).”* FSP APB 14-1 requires issuers of convertible debt instruments that may be settled in cash upon conversion to account separately for the liability and equity components in a manner that will reflect the entity’s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and will be adopted by us in the first quarter of fiscal year 2010 as it applies to our convertible subordinated debt. We expect FSP APB 14-1 to have an impact on our statement of financial position.

In June 2008, the FASB issued EITF Issue No. 07-5, *“Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity’s Own Stock.”* EITF 07-5 provides guidance on determining whether an equity-linked financial instrument, or embedded feature, is indexed to an entity’s own stock. EITF 07-5 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years, and will be adopted by us in the first quarter of fiscal year 2010. We have not yet adopted EITF 07-5, but we are currently assessing the impact that EITF 07-5 may have on our financial position, results of operations, and cash flows.

In November 2008, the FASB ratified EITF Issue No. 08-7, *“Accounting for Defensive Intangible Assets.”* EITF 08-7 applies to defensive intangible assets, which are acquired intangible assets that the acquirer does not intend to actively use but intends to hold to prevent its competitors from obtaining access to them. As these assets are separately identifiable, EITF 08-7 requires an acquiring entity to account for defensive intangible assets as a separate unit of accounting. Defensive intangible assets must be recognized at fair value in accordance with SFAS 141R and SFAS 157. EITF 08-7 is effective for defensive intangible assets acquired in fiscal years beginning on or after December 15, 2008, and will be adopted by us in the first quarter of fiscal year 2010. We expect EITF 08-7 will have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the intangible assets purchased after the effective date of November 1, 2009.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *“Recognition and Presentation of Other-Than-Temporary Impairments.”* FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing “intent and ability” indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is an intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 is effective for interim and annual reporting periods ending after June 15, 2009, and will be

adopted by us in the third quarter of fiscal year 2009. The adoption of FSP 115-2/124-2 is not expected to have a significant impact on our financial position and results of operations.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, “*Interim Disclosures about Fair Value of Financial Instruments.*” FSP 107-1/APB 28-1 requires interim disclosure regarding the fair value of financial instruments that are within the scope of Statement of Financial Accounting Standards No. 107, “*Disclosures about Fair Value of Financial Instruments,*” as amended. Additionally, FSP 107-1/APB 28-1 requires interim disclosure of the methods and significant assumptions used to estimate the fair value of financial instruments as well as changes in methods and significant assumptions, if any, during the period. FSP 107-1/APB 28-1 does not change the accounting treatment for these financial instruments and is effective for interim and annual reporting periods ending after June 15, 2009, and will be adopted by us in the third quarter of fiscal year 2009. Because FSP 115-2/124-2 only requires additional disclosure, the adoption of FSP 115-2/124-2 does not impact our financial position and results of operations.

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 (“SPEs”), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of May 2, 2009, we were not involved in any material unconsolidated SPEs.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

We are exposed to changes in interest rates as a result of our borrowings under our term loan. Based on outstanding indebtedness of \$984.0 million under our term loan as of May 2, 2009, if market rates average 1% higher over the remaining term of the debt, our interest expense would increase by approximately \$32.2 million. Conversely, as of May 2, 2009, the weighted-average interest rate on the term loan was 7.0% which represents the minimum interest rate under the credit agreement.

Based on outstanding indebtedness of \$1.1 billion under our term loan as of October 25, 2008, if market rates average 1% higher over the remaining term of the debt, our interest expense would increase by approximately \$43.2 million. Conversely, if market rates average 1% lower over the remaining term of the debt, our interest expense would decrease by approximately \$43.2 million.

Our convertible subordinated debt is subject to a fixed interest rate and may be converted into common stock based on a fixed conversion ratio. As of May 2, 2009, the approximate aggregate fair value of the outstanding convertible subordinated debt was \$168.0 million. We estimated the fair value of the outstanding convertible subordinated debt by using the high and low prices per \$100 of the Company’s 2.25% Notes as of the last day of trading for the second fiscal 2009 quarter, which were both \$97.38. As of October 25, 2008, the approximate aggregate fair value of the outstanding convertible subordinated debt was between \$155.5 million and \$155.3 million. We estimated the fair value of the outstanding convertible subordinated debt by using the high and low prices per \$100 of the Company’s 2.25% Notes as of the last day of trading for the fourth fiscal 2008 quarter, which were \$90.13 and \$90.00, respectively.

Our cash, cash equivalents, and short-term and long-term investments are primarily maintained at five major financial institutions in the United States. The primary objective of our investment activities is the preservation of principal while maximizing investment income and minimizing risk. The following table presents the hypothetical changes in fair values of our investments as of May 2, 2009 that are sensitive to changes in interest rates (in thousands):

Issuer	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value As of May 2, 2009	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
Corporate bonds and notes	\$ 14,213	\$ 14,207	\$ 14,201	\$ 14,239	\$ 14,111	\$ 14,104	\$ 14,097
Total	\$ 14,213	\$ 14,207	\$ 14,201	\$ 14,239	\$ 14,111	\$ 14,104	\$ 14,097

The following table presents the hypothetical changes in fair values of our investments as of October 25, 2008 that are sensitive to changes in interest rates (in thousands):

Issuer	Valuation of Securities Given an Interest Rate Decrease of X Basis Points			Fair Value As of October 25, 2008	Valuation of Securities Given an Interest Rate Increase of X Basis Points		
	(150 BPS)	(100 BPS)	(50 BPS)		50 BPS	100 BPS	150 BPS
Debt securities issued by U.S. government and its agencies and municipal obligations	\$ 40,743	\$ 40,670	\$ 40,597	\$ 40,526	\$ 40,453	\$ 40,381	\$ 40,310
Corporate bonds and notes	\$ 144,148	\$ 143,734	\$ 143,420	\$ 143,389	\$ 142,514	\$ 142,113	\$ 141,720
Total	\$ 184,891	\$ 184,404	\$ 184,017	\$ 183,915	\$ 182,967	\$ 182,494	\$ 182,030

These instruments are not leveraged and are classified as available-for-sale. The modeling technique used measures the change in fair values arising from selected potential changes in interest rates. Market changes reflect immediate hypothetical parallel shifts in the yield curve of plus or minus 50 basis points (“BPS”), 100 BPS and 150 BPS, which are representative of the historical movements in the federal funds rate.

The following table (in thousands) presents our cash equivalents and short-term investments subject to interest rate risk and their related weighted-average interest rates as of May 2, 2009. Carrying value approximates fair value.

	Amount	Weighted-Average Interest Rate
Cash and cash equivalents	\$ 222,626	0.16%
Short-term investments	14,239	3.73%
Total	\$ 236,865	0.38%

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 six months ended May 2, 2009 were the Euro, the Japanese Yen, the British Pound and the Singapore Dollar. 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 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. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures if 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 May 2, 2009, we held \$11.2 million in cash flow derivative instruments. The maximum length of time over which we are hedged as of May 2, 2009 is through November 6, 2009. As of October 25, 2008, we held \$18.5 million in cash flow derivative instruments. The maximum length of time over which we were hedged as of October 25, 2008 was through May 4, 2009.

Equity Price Risk

We are also exposed to equity price risk inherent in our portfolio of publicly traded equity securities, which had an estimated fair value of \$182.3 million at October 25, 2008 and were comprised of the 14.0 million shares of Foundry common stock we held for the period then ended (see Note 6, “Investments and Equity Securities,” of the Notes to Condensed Consolidated Financial Statements). As of May 2, 2009, we had no publicly traded equity securities and no marketable equity securities. 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. The aggregate cost of our equity investments in non-publicly traded companies was \$6.8 million at May 2, 2009 and October 25, 2008.

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "BRCD." On May 1, 2009, the last business day of our second fiscal quarter of 2009, the last reported sale price of our common stock on the NASDAQ Global Select Market was \$5.93 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 the design and operation 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 operating effectively 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 operating effectively.

(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 May 2, 2009 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

The information set forth in Note 10 (see "Legal Proceedings" of Note 10) 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

The slowdown in the domestic and global economies may increasingly adversely affect Brocade's operating results and financial condition.

The domestic and global economies are undergoing a period of significant slowdown. This slowdown has resulted in reduced demand for information technology, including high-performance data networking solutions, and may continue to reduce demand

further. Information technology spending has historically declined as general economic and market conditions have worsened, and as the domestic or global economy continues to undergo a significant downturn, or if our customers believe such a downturn will continue for a sustained period, our customers may likely further reduce their information technology spending and future budgets. We are particularly susceptible to reductions in information technology spending because the purchase of our 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 our 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 our products and reduced sales volumes. Similarly, as our suppliers face challenges in obtaining credit or otherwise in operating their businesses, they may become unable to continue to offer the materials we use to manufacture our products. These events have caused, and may cause further, reductions in our 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 our business, results of operations and financial condition.

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

The recent economic downturn has also significantly affected 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.

Technological convergence and industry consolidation may adversely affect Brocade's market opportunities and operating results.

Convergence and consolidation trends within the information technology industry are beginning to blur the silos that have historically existed between computing, networking and storage markets and technologies. These trends are shifting long-standing industry partnerships/alliances, go-to-market routes, technology models and represent risks for Brocade. For example, the ongoing development of new networking protocols known as Fibre Channel over Ethernet ("FCoE") and Converged Enhanced Ethernet ("CEE") are designed to merge storage and IP network traffic inside of data centers. Brocade recently introduced new products that support FCoE/CEE. Earlier and wider adoption of FCoE/CEE than is currently projected by Brocade and other industry experts, however, may negatively impact Brocade's core businesses, namely its Fibre Channel-based hardware and software. Another example is Cisco's recent announcement of its entry into the blade server market, which could impact how next-generation data centers and data center networks are architected.

The industry is also experiencing a significant amount of consolidation that pose various risks to Brocade. For example, Oracle's proposed acquisition of Sun Microsystems may threaten or eliminate a route-to-market through an OEM. In addition, Broadcom's proposed acquisition of Emulex Corporation ("Emulex") may strengthen Emulex's ability to compete with Brocade in the host bus adapter market as well as other markets in which Brocade competes. Our partners and competitors could also combine or enter into strategic partnerships. The above examples and additional industry consolidation may severely impact key existing Brocade partnerships and disrupt go-to-market routes and market opportunities.

Brocade incurred substantial indebtedness to finance the acquisition of Foundry 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.

Upon completion of the acquisition of Foundry, Brocade increased its indebtedness by approximately \$1.1 billion, which is substantially greater than its indebtedness prior to the acquisition. 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 recent historical basis will have the effect, among other things, of reducing the flexibility of Brocade to respond to changing business and economic conditions and increasing borrowing costs, and may adversely affect Brocade's operations and financial results. The increased indebtedness may also adversely affect Brocade's ability to access sources of capital, incur certain liens or engage in certain types of sale and leaseback transactions. Certain types of financing or other transactions may also require Brocade to seek an amendment or waiver under its Senior Secured Credit Facility. Any such amendment or waiver may require a demand payment to our debt holders or may not be available on commercially reasonable terms, if at all. In addition, our failure to comply with these covenants could result in a default under the Senior Secured Credit Facility and our other debt, which could permit

the holders to accelerate such debt or demand payment in exchange for a waiver of such default. If any of our debt is accelerated, we 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 and the maturity of the existing convertible subordinated debt in fiscal year 2010 may negatively impact Brocade's cash position and reduce Brocade's financial flexibility. In addition, any changes by rating agencies to Brocade's credit rating in connection with such indebtedness may negatively impact the value and liquidity of Brocade's debt and equity securities and Brocade's ability to access sources of capital.

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

The market for data and storage networking solutions is intensely competitive. In particular, Cisco maintains a dominant position in the data networking market and several of its products compete directly with Brocade's products. Purchasers of networking solutions may choose Cisco's products because of its longer operating history, broader product line and strong reputation in the networking market. In addition, Cisco may develop new technologies that directly compete with the combined company's products or render its products obsolete.

Brocade also competes with other companies, such as 3Com Corporation, Alcatel-Lucent, Enterasys Networks, Inc., Extreme Networks, Inc., F5 Networks, Inc., Force10 Networks, Inc., Hewlett-Packard Company, Huawei Technologies Co. Ltd., Juniper Networks, Inc. and Nortel Networks Corporation. Some of Brocade's current and potential 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 also faces significant competition from providers of Fibre Channel switching products for interconnecting servers and storage. These principal competitors include Cisco and QLogic Corporation. Brocade also faces other competitors in markets adjacent to the SAN market, such as Cisco and F5 Networks, Inc. in the File Management market and QLogic and Emulex in the Server Connectivity or HBA market.

Particularly as Brocade enters new adjacent markets, Brocade may face competitors with well-established market share and customer relationships. Brocade's competitors could adopt more aggressive pricing policies than Brocade. Brocade believes that competition based on price may become more aggressive than it has traditionally experienced. Brocade's competitors could also devote greater resources to the development, promotion and sale of their products than Brocade may be able to support and, as a result, be able to 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.

New competitors are likely to emerge from the existing Ethernet networking companies in the market as the Fibre Channel over Ethernet standard becomes finalized and is introduced to the market. These competitors are likely to use emerging technologies and alternate routes-to-market (outside of Brocade's traditional OEM channels) to compete with Brocade. In addition, Brocade's OEM partners, who also have relationships with some of Brocade's current competitors, could become new competitors by developing and introducing products that compete with Brocade's product offerings, by choosing to sell Brocade's competitors' products instead of Brocade's products, or by offering preferred pricing or promotions on Brocade's competitors' products. Competitive pressure will likely intensify as Brocade's industry experiences further consolidation in connection with acquisitions by Brocade, its competitors and its OEM partners.

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

The market for networking solutions 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 as the networking markets become more competitive and as demand for new and improved technologies increases.

Brocade has introduced a significant number of new products in recent history, including products across its family of Data Center Infrastructure solutions, which accounts for a substantial portion of Brocade's revenues. Recent product introductions include the Brocade DCX™ Backbone, the first in a new class of high-performance data center networking products designed to address the demanding requirements of the evolving data center. Recent product introductions by Foundry include the FastIron WS compact edge

switch, a solution for secure and unified campus-wide convergence, and the NetIron CES 2000 Series, a compact one-rack unit edge/aggregation switch. Brocade also announced its HBAs, product offerings in the Server Connectivity market, in fiscal year 2008. Market adoption of Brocade's HBA product offerings is still early in the acceptance process and remains to be determined.

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. In addition, Brocade's plans to sell its offerings through new channels also requires market acceptance to be successful. For example, in April 2009 Brocade announced an expanded relationship with IBM whereby IBM will rebrand and sell a set of Brocade enterprise IP networking products through the IBM global sales force and authorized IBM business partners, extending the existing relationship between Brocade and IBM for storage area networking products. This expanded relationship also requires Brocade to make certain significant upfront investments, which costs may not be recovered or provide the desired return on investment if the anticipated benefits of the expanded relationship are not ultimately successful.

The success of Brocade's product and service offerings depends on numerous factors, including its ability to:

- Properly define the new products and services;
- Timely develop and introduce the new products and services;
- 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; 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 reduce Brocade's 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 technology and products;
- The ability of its OEM partners to successfully distribute, support and provide training for its products; and
- Customer acceptance of Brocade products in light of the Foundry acquisition.

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.

The failure to successfully integrate Foundry's business and operations in the expected time frame may adversely affect the combined company's future results.

Brocade believes that the acquisition of Foundry will result in certain benefits, including broader addressable market opportunities, product innovations, and operational efficiencies. However, Brocade's ability to realize these anticipated benefits depends on successfully combining the businesses of Brocade and Foundry. The combined company may fail to realize the anticipated benefits of the merger for a variety of reasons, including the following:

- Failure of customers to accept new products or to continue as customers of the combined company;
- Failure to successfully manage relationships with original equipment manufacturers, end-users, distributors and suppliers;

- Failure to successfully streamline Brocade's IP networking reseller channel;
- Failure to retain key employees;
- Failure to effectively coordinate sales and marketing efforts to communicate the capabilities of the combined company;
- Failure to successfully develop new products and services on a timely basis that address the market opportunities of the combined company;
- Failure to compete effectively against companies already serving the broader market opportunities expected to be available to the combined company;
- Failure to qualify the combined company's products with OEM customers on a timely basis, or at all;
- Failure to successfully consolidate its third-party contract manufacturing, streamline its supply chain, and reduce product costs while maintaining the ability to sell qualified SAN and IP Networking products to its combined customer base, including United States government customers;
- Failure to consolidate the combined company's professional services and customer support organizations;
- Failure to successfully integrate and harmonize financial reporting and information technology systems of Brocade and Foundry; and
- The integration of Foundry into Brocade may result in significant expenses and accounting charges that adversely affect Brocade's operating results and financial condition.

The challenges of integrating Foundry could disrupt the combined company's ongoing business, distract its management's focus from other opportunities and challenges, and increase the combined company's expenses and working capital requirements. The actual integration may also result in unforeseen expenses or delays. If Brocade is not able to successfully integrate Foundry's business and operations, or if there are delays or greater costs than expected in combining the businesses, the anticipated benefits of the merger may not be realized fully, or at all, or may take longer to realize than expected.

Brocade has a high concentration of customers, including a limited number of OEM partners, which it relies on for a substantial portion of its revenues. The loss of any of these customers or OEM partners or a decrease in their purchases could significantly reduce Brocade's revenues and negatively affect Brocade's financial results.

Brocade 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 2008, 2007 and 2006, the same three customers each represented ten percent or more of Brocade's total net revenues for a combined total of 65%, 68% and 73%, respectively. Brocade's agreements with its OEM partners are typically cancelable, non-exclusive, have no minimum purchase requirements and have no specific timing requirements for purchases. Brocade's OEM partners could also elect to reduce, or rebalance, the amount they purchase from Brocade and increase the amount purchased from Brocade's competitors. Also, one or more of Brocade's OEM partners could elect to consolidate or enter into a strategic partnership with one of its competitors, which could have the effect of reducing or eliminating Brocade's future revenue opportunities with that OEM partner. Brocade anticipates that its revenues and operating results 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 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 products are being qualified with multiple distribution partners at the same time. In addition, once Brocade's 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 must continually assess, 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 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. If Brocade fails to respond successfully to the needs of these groups, its business and financial results could be harmed.

The loss 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, or companies within the financial services sector, could also cause our revenue and profitability to suffer. For example, if we are unable to offer qualified products to such government customers due to governmental procurement regulations and requirements with respect to country of origin designation, our government orders could decrease, which would negatively impact our revenue and operating results. In addition, our ability to attract new customers will depend on a variety of factors, including the cost-effectiveness, reliability, scalability, breadth and depth of our products. In addition, a change in the mix of our customers, or a change in the mix of direct and indirect sales, could adversely affect our revenue and gross margins.

Brocade's failure to successfully manage the transition between its new products and its older products may adversely affect Brocade's financial results.

As Brocade introduces new or enhanced products, Brocade must 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, such as new products based on the recently introduced 8 Gigabit Fibre Channel or 20 Gigabit Ethernet technology, Brocade faces numerous risks relating to product transitions, including the inability to accurately forecast demand, 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.

Changes in industry structure and market conditions could lead to charges related to discontinuances of certain of Brocade's products or businesses and asset impairments.

Brocade carries a substantial amount of acquired intangible assets and goodwill on its balance sheet. Our determination of fair value of long-lived assets relies on management's assumptions of our future revenues, operating costs, and other relevant factors. In response to changes in industry and market conditions, Brocade may be required to realign its resources strategically and consider restructuring, disposing of, or otherwise exiting businesses. Any decision to limit investment in, or dispose of, or otherwise exit businesses may result in the recording of special charges, such as inventory and technology-related 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. Similarly, 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 our 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. For example, during the three months ended May 2, 2009, Brocade recorded a non-cash \$53.3 million impairment charge in connection with the decision to no longer offer Brocade's suite of Files products.

Brocade's estimates relating to the liabilities for excess facilities are also affected by changes in real estate market conditions. In addition, we have made investments in certain private companies which could become impaired if the operating results of those companies change adversely. 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 may be subject to intellectual property infringement claims and litigation that are costly to defend and/or settle, and that could limit Brocade's ability to use certain technologies in the future. Additionally, Brocade may be found by a court to infringe on intellectual property rights of others, which may result in significant damage and cost awards against Brocade, and may result in injunctions against Brocade prohibiting further infringement.

Companies in the data and networking industries in which Brocade competes are frequently subject to claims and related litigation regarding patent and other intellectual property rights. For example, some companies claim extensive patent portfolios that may apply to the networking industry. As a result of the existence of a large number of patents and the rate of issuance of new patents in the networking industry, and the movement of engineers and other employees between various companies, it is practically impossible for

a company to determine in advance whether a product or any of its components may infringe upon intellectual property rights that may be claimed by others. From time to time, third-parties have asserted patent, copyright and trade secret rights to technologies and standards that are important to us. Additionally, third-parties may in the future assert claims or initiate litigation against Brocade or its manufacturers, suppliers or customers alleging infringement of their intellectual property rights with respect to Brocade's existing or future products. Brocade and Foundry have in the past incurred, and the combined company is currently incurring and will in the future incur, substantial expenses in defending against such third-party claims. Due to its acquisition of Foundry, Brocade is involved in intellectual property-related disputes, including lawsuits with Enterasys Networks, Inc., Network-1 Security Solutions, Inc., and Chrimar Systems, Inc. Brocade may also inherit intellectual property-related disputes from acquisitions of other companies, products or technologies. In addition, Brocade may be subject to indemnification obligations with respect to infringement of third-party intellectual property rights pursuant to Brocade's agreements, or Foundry or other acquired company agreements, with OEM partners or customers. In the event of a determination adverse to Brocade, it could incur substantial monetary liability and be required to change its business practices. Either of these could have a material adverse effect on Brocade's financial position, results of operations, or cash flows.

A number of companies have developed a licensing program in an attempt to realize revenue from their patent portfolios. Some of these companies have contacted Brocade regarding a license, and others may be expected to contact Brocade in the future. Any asserted license demand can require considerable effort and expense to review and respond. Moreover, a refusal by Brocade to a license request could result in threats of litigation or actual litigation, which, if or when initiated, could harm Brocade's business.

Brocade relies on a combination of patent, copyright, trademark and trade secret laws and contractual restrictions on disclosure to protect our intellectual property rights in these proprietary technologies. 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 our technology.

Brocade is a party to lawsuits in the normal course of its business. Litigation in general, and intellectual property and securities litigation in particular, can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to the allegations has been, and probably will continue to be, expensive and time-consuming for Brocade. Unfavorable outcomes from these claims and/or lawsuits could adversely affect Brocade's business, results of operations, or financial condition.

The prices of Brocade's products have declined in the past and Brocade expects the price 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 declined in the past, and Brocade expects it to continue to decline in the future as a result of changes in broader macroeconomic factors, product mix, competitive pricing pressure, increased sales discounts, new product introductions by Brocade or Brocade's competitors, the entrance of new competitors and other factors. Price declines may increase as competitors ramp up product releases that compete with Brocade's products. Furthermore, as a result of cautious capital spending in the technology sector, coupled with broader macroeconomic factors, both we and our competitors may pursue more aggressive pricing strategies in an effort to maintain sales levels. If Brocade is unable to offset any negative impact that changes in broader macroeconomic factors, product mix, competitive pricing pressures, increased sales discounts, enhanced marketing programs, new product introductions by Brocade or Brocade's competitors, or other factors may have on its average selling price by increasing the volume of products shipped or reducing product manufacturing cost, 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 products shipped, develop and introduce new products and product enhancements, and continue to reduce the manufacturing cost 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. 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, the mix of product configurations sold and the mix of distribution channels through which its products are sold. For example, Foundry generally realized higher gross margins on direct sales to an end-user than on sales through its resellers or to its OEMs. As a result, any significant shift in revenue through Foundry's resellers or to OEMs could harm our gross margins. In addition, if product or related warranty costs associated with Brocade's products are greater than we have experienced, Brocade's gross margins may also be adversely affected. Finally, increased costs resulting from higher than anticipated

oil prices and the volatility of the value of the U.S. dollar may affect the costs of components used in Brocade's products and negatively affect Brocade's gross margins.

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 the supply of key components for Brocade's products and 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. Moreover, in preparing sales and demand forecasts, Brocade relies largely on input from its OEM partners while Foundry historically relied on input from its resellers and end-user customers. Therefore, if Brocade or its OEM 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 adjustments to its business model. If Brocade is unable to obtain adequate manufacturing capacity from its contract manufacturers, if Brocade accumulates excess inventories, or if Brocade is unable to make necessary adjustments to Brocade's business model, revenue may be delayed or even lost to Brocade's competitors and Brocade's business and financial results may be harmed. In addition, Brocade may experience higher fixed costs as it expands its contract manufacturer capabilities and thus be less able to react quickly if demand suddenly decreases.

Brocade's ability to accurately forecast demand also may become increasingly more difficult as Brocade enters new or adjacent markets, begins phasing out certain products, or acquires other companies or businesses. Forecasting demand for new or adjacent markets, particularly where the markets are not yet well-established, may be highly speculative and uncertain. For products that are nearing end of life or are being replaced by new versions, it may be difficult to forecast how quickly to decrease production on the older products and ramp up production on the new products. Acquired companies or businesses may offer less visibility into demand than Brocade typically has experienced, may cause customer uncertainty regarding purchasing decisions, and may use different measures to evaluate demand that are less familiar to Brocade and thus more difficult to accurately predict.

In addition, although the purchase orders placed with Brocade's contract manufacturers are cancelable, in certain circumstances Brocade could be required to purchase certain unused material not returnable, usable by, or sold to other customers if Brocade cancels any of Brocade's orders. 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 would incur unanticipated expenses and Brocade's business and financial results could be negatively affected.

In the past, Foundry has experienced delays in product shipments from its contract manufacturers and OEMs, which in turn delayed product shipments to its customers. In addition, certain of Brocade's IP networking product families require a long manufacturing lead time, which may result in delayed shipments. Brocade may in the future experience similar delays or other problems, such as inferior quality, insufficient quantity of product, or acquisition by a competitor or business failure of any of our OEMs, any of which could harm Brocade's business and operating results.

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 manufacturer has significant operations in China. Brocade plans to continue to expand its international operations and sales activities in addition to the establishment of its new limited manufacturing facility in Eastern Europe. Foundry's international sales have primarily depended on its resellers, including Pan Dacom GmbH in Europe, Stark Technology Inc. in Taiwan and Samsung Corporation in Korea. The failure of Foundry's international resellers to sell our products could limit our ability to sustain and grow our revenue. Expansion of international operations will involve inherent risks that Brocade may not be able to control, including:

- Supporting multiple languages;
- Recruiting sales and technical support personnel with the skills to design, manufacture, sell and support Brocade's products;
- Complying with governmental regulation of encryption technology and regulation of imports and exports, including obtaining required import or export approval for our products;

- Increased complexity and costs of managing international operations;
- Increased exposure to foreign currency exchange rate fluctuations;
- 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;
- Difficulties in collecting accounts receivable;
- Reduced or limited protection of intellectual property rights;
- Managing a development team in geographically disparate locations, including China and India;
- More complicated logistics and distribution arrangements; and
- 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. In addition, concerns about other international crises, including potential pandemics such as the H1N1 flu (swine flu) virus, 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, 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 operating costs in foreign locations. In the future, a larger portion of Brocade's international revenues may be denominated in foreign currencies, which will subject Brocade to additional risks associated with fluctuations in those foreign currencies. In addition, Brocade may be unable to successfully hedge against any such fluctuations.

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

Brocade has in the past acquired, or made strategic investments in, other companies, products or technologies, and Brocade expects to make additional acquisitions and strategic investments in the future. Examples of recent acquisitions include Foundry in December 2008, Strategic Business Systems, Inc. in March 2008, McDATA Corporation in January 2007 and NuView, Inc. in March 2006. In addition to the risks related to the acquisition of Foundry that are described above, Brocade may not realize the anticipated benefits of the acquisition of Foundry or any other acquisitions or strategic investments, which involve numerous risks, including:

- Difficulties in successfully integrating the acquired businesses;
- 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;

- Potential loss of key employees;
- Inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- 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 acquisition-related costs or amortization costs for acquired intangible assets that could impact Brocade's operating results;
- Potential write-down of goodwill and/or acquired intangible assets, which are subject to impairment testing on an annual basis, and could significantly impact Brocade's operating results; and
- Dilution of the percentage of Brocade's stockholders to the extent equity is used as consideration or option plans are assumed, such as in the case of the Foundry acquisition, in which approximately 125.1 million additional shares of Brocade common stock became issuable in connection with the assumption or substitution of Foundry equity awards.

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

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

Brocade purchases certain key components used in the manufacture of its products from single or limited sources. Brocade purchases certain application-specific integrated circuits ("ASICs") from a single source, and Brocade purchases microprocessors, certain connectors, small form-factor pluggable transceivers, logic chips, power supplies and programmable logic devices from limited sources. Our principal limited or sole-sourced components for our classic IP networking products include high-speed dynamic and static random access memories, commonly known as DRAMs and SRAMs, ASICs, printed circuit boards, optical components, packet processors, switching fabrics, microprocessors and power supplies. Proprietary ASICs used in the manufacture of our products are purchased from sole sources and may not be readily available from other suppliers as the development period required to fabricate these ASICs can be lengthy. In addition, more recent IP networking product families integrate customizable network processors from sole source suppliers such as Marvell Technology Group Ltd. We acquire these components through purchase orders and have no long-term commitments regarding supply or pricing from these suppliers. From time to time, Brocade's IP networking product families had experienced shortages in allocations of components, resulting in delays in filling orders. Brocade may encounter shortages and delays in obtaining components in the future, which could impede Brocade's ability to meet customer orders. Brocade's proprietary ASICs, which provide key functionality in certain IP networking products, are fabricated in foundries operated by, or subcontracted by, Texas Instruments Inc., Fujitsu Ltd., and Broadcom Corporation. An alternative supply for these ASICs would require an extensive development period. Brocade also licenses certain third-party software that is incorporated into Brocade's operating system software and other software products. If Brocade is unable to obtain these and other components when required or if Brocade experiences significant component defects, Brocade may not be able to deliver Brocade's products to Brocade's customers in a timely manner. As a result, Brocade's business and financial results could be harmed. The recent global recession and challenging economic climate may cause some of our sole source or limited source suppliers to delay production or go out of business and could result in a disruption to our supply chain.

We depend on anticipated product orders to determine our material requirements. Lead times for limited-sourced materials and components for Brocade's IP networking product families can be as long as six months, vary significantly and depend on factors such as the specific supplier, contract terms and demand for a component at a given time. Inventory management remains an area of focus as we balance the need to maintain strategic inventory levels to ensure competitive lead times with the risk of inventory obsolescence due to rapidly changing technology and customer requirements. If orders do not match forecasts, or if we do not manage inventory effectively, we may have either excess or insufficient inventory of materials and components, which could negatively affect our operating results and financial condition.

In addition, the loss of any of Brocade's major third-party contract manufacturers 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 its contract manufacturer or if its contract manufacturer experiences 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.

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, 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. We do not have multiple site capacity for all of our 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 does not carry earthquake insurance and has not set aside funds or reserves to cover such potential earthquake-related losses. Additionally, health issues such as an outbreak of a pandemic or epidemic, including the H1N1 flu (swine flu) virus, may interrupt business operations in those geographic regions affected by the disease. In addition, Brocade's contract manufacturer 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 our implementation of network security measures, our servers may be vulnerable to computer viruses, break-ins, and similar disruptions from unauthorized tampering with our computer systems. We may not carry sufficient insurance to compensate us for losses that may occur as a result of any of these events.

Brocade may not realize the anticipated benefits in connection with its recent purchase of real estate and plans to develop and construct office buildings, which could disrupt its business and negatively impact its financial performance.

Brocade's recent purchase of real estate in San Jose, California and its commitment to build a new campus of several buildings on that real estate constitute a substantial investment. Brocade may not realize the anticipated benefits with respect to the purchase and development of such property. Brocade is devoting significant capital resources to developing the campus, which will reduce Brocade's liquidity and financial flexibility. Additionally, the development, construction and maintenance of the new campus may result in unexpected costs or delays, which could negatively impact its financial position. Moreover, any delays in the development or construction of the new campus could also suspend Brocade's ability to move into the new campus on a timely basis and, as a result, disrupt Brocade's business.

Certain former officers and directors of Brocade are subject to ongoing actions by the SEC, the Department of Justice ("DOJ"), Brocade and others, which have required, and may continue to require, a significant amount of legal expense pursuant to indemnification obligations of Brocade, which could adversely affect Brocade's results of operations and cash flows.

The SEC, DOJ and various other third-parties are continuing to investigate and pursue actions against certain former executive officers of Brocade in connection with Brocade's historical stock option granting practices and other related matters. In addition, in August 2008, the Special Litigation Committee of Brocade's Board of Directors filed a complaint against certain former officers and directors on behalf of Brocade, asserting claims arising from Brocade's 2005 internal reviews and restatements relating to historical stock option granting practices and other related matters. While those actions are targeted against certain former officers and directors and not Brocade, Brocade has certain indemnification obligations to such former officers and directors for, among other things, the advancement of legal expenses incurred in connection with such actions, which have required, and may continue to require, a significant amount of expense to Brocade. Whether Brocade may be entitled to recoup all or a portion of the expenses advanced by

Brocade on behalf of such former officers and directors or recover any losses resulting from certain actions of such former officers and directors is complex and may be affected by, among other things, various state laws, the interpretation of indemnification agreements and the collectability of any such amounts.

Brocade's business is subject to cyclical fluctuations and uneven sales patterns, which make predicting results of operations difficult.

Many of Brocade's OEM partners experience uneven sales patterns in their businesses due to the cyclical nature of information technology spending. For example, some of Brocade's partners close a disproportionate percentage of their sales transactions in the last month, weeks and days of each fiscal quarter, and other partners experience spikes in sales during the fourth calendar quarter of each year. Because the majority of Brocade's sales are derived from a small number of OEM partners, when they experience seasonality, Brocade typically experiences similar seasonality. Historically, Brocade's first and fourth fiscal quarters are seasonally stronger quarters than its second and third fiscal quarters. These OEM partners make decisions to purchase inventory based on a variety of factors, including their product qualification cycles and their expectations of end customer demand, which may be affected by seasonality and their internal supply management objectives. Others require that Brocade maintain inventories of Brocade's products in hubs adjacent to their manufacturing facilities and purchase Brocade's products only as necessary to fulfill immediate customer demand. In addition, Brocade has experienced quarters where uneven sales patterns of Brocade's OEM partners have resulted in a significant portion of Brocade's revenue occurring in the last month of Brocade's fiscal quarter. Foundry typically experienced significantly higher levels of sales towards the end of a period as a result of customers submitting their orders late in the period or as a result of manufacturing issues or component shortages which may delay shipments. Such non-linearity in shipments can increase costs, as irregular shipment patterns result in periods of underutilized capacity and additional costs associated with higher inventory levels and inventory planning. Furthermore, orders received towards the end of the period may not ship within the period due to our manufacturing lead times. This exposes Brocade to additional inventory risk as it has to order products in anticipation of expected future orders and additional sales risk if Brocade is unable to fulfill unanticipated demand. Brocade is not able 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.

Brocade's quarterly and annual revenues and operating results may fluctuate in future periods due to a number of factors, which could adversely affect the trading price of Brocade's stock.

Brocade's quarterly and annual revenues and operating results may vary significantly in the future due to a number of factors, any of which may cause Brocade's stock price to fluctuate. Factors that may affect the predictability of Brocade's annual and quarterly results include, but are not limited to, the following:

- Disruptions or a continued decline in general economic conditions, particularly in the information technology industry;
- Announcements of pending or completed acquisitions or other strategic transactions by Brocade or its competitors;
- Announcements, introductions and transitions of new products by Brocade and its competitors or its OEM partners;
- The timing of customer orders, product qualifications and product introductions of Brocade's OEM partners;
- Seasonal fluctuations;
- Long and complex sales cycles;
- Declines in average selling prices for Brocade's products as a result of competitive pricing pressures or new product introductions by Brocade or its competitors;
- The emergence of new competitors and new technologies in the storage network and data management markets;
- Deferrals of customer orders in anticipation of new products, services, or product enhancements introduced by Brocade or its competitors;
- Brocade's ability to timely produce products that comply with new environmental restrictions or related requirements of its OEM 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;
- Increases in prices of components used in the manufacture of Brocade's products;
- Brocade's ability to attain and maintain production volumes and quality levels;
- 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;
- Stock-based compensation expense that is affected by Brocade's stock price;
- New legislation and regulatory developments; and
- Other risk factors detailed in this section.

Accordingly, 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.

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 Brocade's 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 may not have been through the same product development, testing and quality control processes typically used for products developed internally 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, divert the attention of engineering personnel from product development efforts, and cause significant customer relations problems. Moreover, the occurrence of hardware and software errors, whether caused by another vendor's storage or Ethernet network and data management products or Brocade's, could delay market acceptance of Brocade's new products.

Brocade is subject to environmental regulations that could have a material adverse effect on 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 OEM 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 OEM partners. Despite Brocade's efforts to ensure that Brocade's products comply with new and emerging requirements, Brocade cannot provide absolute assurance that its products will, in all cases, comply with such requirements. If Brocade's products do not comply with the substance restrictions under local environmental laws, Brocade could become subject to fines, civil or criminal sanctions and contract damage claims. In addition, Brocade could be prohibited from shipping non-compliant products into one or more jurisdictions and required to recall and replace any non-compliant products already shipped, which would disrupt Brocade's 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 them to provide compliant materials, parts and components, which could impact Brocade's ability to timely produce compliant products and, accordingly, could disrupt Brocade's business.

Brocade relies on licenses from third-parties and the loss or inability to obtain any such license could harm Brocade's 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 Brocade's products, Brocade believes that, based upon past experience and standard industry practice, such licenses generally could be obtained on commercially reasonable terms. Nonetheless, there can be no assurance that the necessary licenses would be available on acceptable terms, if at all. Brocade's inability to obtain certain licenses or other rights on favorable terms could have a material adverse effect on Brocade's business, operating results and financial condition. In addition, if Brocade fails to carefully manage the use of "open source" software in Brocade's products, Brocade may be required to license key portions of Brocade's products on a royalty-free basis or expose key parts of source code.

Brocade's business is subject to increasingly complex corporate governance, public disclosure, accounting and tax requirements 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 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, most notably the Sarbanes-Oxley Act of 2002. 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, increased expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. A change in the tax law in the jurisdictions in which we do 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 our tax expense.

Brocade is subject to periodic audits or other reviews by such governmental agencies. For example, in November 2005, Brocade was notified by the IRS that Brocade's domestic federal income tax return for the year ended October 25, 2003 was subject to audit. In addition, in August 2008, the IRS commenced examination of the federal income tax returns for the three tax years ended 2004 through 2006. In May 2006, the Franchise Tax Board notified Brocade that its California income tax returns for the years ended October 25, 2003 and October 30, 2004 were subject to audit. In February 2009, the IRS commenced an examination of Foundry's federal income tax returns for the years ended December 31, 2006 and 2007. All these examination cycles remain open as of May 2, 2009. The SEC also periodically reviews Brocade's public company filings. Any such examination or review frequently requires 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.

In May 2008, the IRS completed its field examination of Brocade's federal income tax return for the year ended October 25, 2003 and issued a Revenue Agent's Report. The IRS' proposed adjustment was offset by approximately \$306.0 million of Brocade's net operating loss carryforwards which resulted in a tax assessment of approximately \$6.4 million, excluding penalties and interest. The IRS is contesting Brocade's transfer pricing for the cost sharing and buy-in arrangements with its foreign subsidiaries. The IRS may make similar claims against Brocade's transfer pricing arrangements in future examinations. In June 2008, Brocade filed a protest with the Appeals Office of the IRS to seek resolution of the issues. 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 the day-to-day operations of Brocade's business, which could adversely affect Brocade's business.

If Brocade loses key personnel or is unable to hire additional qualified personnel, 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 personnel, many of whom would be difficult to replace. Brocade believes its future success will also depend, in large part, upon Brocade's ability to attract and retain highly skilled managerial, engineering, sales and other personnel, and on the ability of management to operate effectively, both individually and as a group, in geographically disparate locations. There is only a limited number of qualified personnel in the applicable market and competition for such employees is fierce. In the past, Brocade has experienced difficulty in hiring qualified personnel in areas such as application-specific integrated circuits, software, system and test, sales, marketing, service, key management and customer support. In addition, declines in Brocade's stock price resulting in

“underwater” stock options held by our employees as well as Brocade’s past reductions in force could potentially make attracting and retaining qualified employees more difficult in the future. In addition, Brocade’s fluctuating stock price has resulted in a certain number of “underwater options” held by Brocade employees. Such underwater options may decrease Brocade’s ability to incentivize or retain qualified personnel. Brocade’s ability to retain qualified personnel may also be affected by future and recent acquisitions, such as the acquisition of Foundry, which may cause uncertainty and loss of key personnel. The loss of the services of any of Brocade’s key employees, the inability to attract or retain qualified personnel in the future, or delays in hiring required personnel, particularly engineers and sales personnel, could delay the development and introduction of 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 personnel. Such claims could result in material 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.

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;
- Providing for a classified board of directors with staggered, three-year terms;
- Prohibiting cumulative voting in the election of directors;
- Limiting the persons who may call special meetings of stockholders;
- Prohibiting stockholder actions by written consent; and
- Requiring supermajority voting to effect amendments to the foregoing provisions of Brocade’s certificate of incorporation and bylaws.

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 anti-takeover provisions could prevent or delay a change in control of Brocade, which could hinder stockholders’ ability to receive a premium for Brocade’s stock.

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

On April 15, 2009, in connection with the 2009 Annual Meeting of Stockholders (the “2009 Annual Meeting”), seven non-employee members of the Company’s Board of Directors received an automatic grant in an aggregate amount of 62,500 restricted stock units (“RSUs”), comprised of grants of 10,000 RSUs to each of six non-employee directors and one grant of 2,500 RSUs to one non-employee director, pursuant to the terms of the Company’s 2009 Director Plan. Pursuant to the 2009 Director Plan, 100% of the shares subject to the RSUs will vest on the earlier of the one year anniversary of the date of grant or the next annual meeting of stockholders, provided that the recipient continues to serve as a director on such date. The RSUs were issued pursuant to the exemption from registration set forth in Section 4(2) of the Securities Act of 1933.

Except as set forth above, there were no unregistered sales of equity securities during the six months ended May 2, 2009.

Issuer Purchases of Equity Securities

The following table summarizes share repurchase activity for the three months ended May 2, 2009 (in thousands, except per share amounts):

<u>Period</u>	<u>Total Number of Shares Purchased (1)</u>	<u>Average Price Paid per Share (1)</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program (2)</u>	<u>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program(2)</u>
January 25, 2009 – February 28, 2009	—	\$ —	—	\$ 414,140
March 1, 2009 – March 28, 2009	—	\$ —	—	\$ 414,140
March 29, 2009 – May 2, 2009	—	\$ —	—	\$ 414,140
Total	—	\$ —	—	\$ 414,140

- (1) The total number of shares repurchased includes those shares of Brocade common stock that employees deliver back to Brocade to satisfy tax-withholding obligations that arise upon the vesting of restricted stock or upon termination of the employee and the forfeiture of restricted awards.
- (2) As of November 29, 2007, the Company's Board of Directors authorized a total of \$800.0 million for the repurchase of the Company's common stock. Purchases were made, from time to time, in the open market or by privately negotiated transactions and were funded from available working capital. The number of shares purchased and the timing of purchases were based on the level of the Company's cash balances, general business and market conditions, and other factors, including alternative investment opportunities. During the third fiscal quarter of 2008, the Company suspended its share repurchase program due to the then pending Foundry acquisition. The Company is prioritizing its use of cash for debt repayment following the close of the Foundry acquisition.

Item 4. Submission of Matters to a Vote of Security Holders

Our Annual Meeting of Stockholders was held on April 15, 2009 in San Jose, California. Of the 386,948,943 shares outstanding as of the record date, 356,254,566 shares (approximately 92.1%) were present or represented by proxy at the meeting. The results of the voting on the matters submitted to the stockholders are as follows:

1. To elect three Class I Directors to serve until the 2012 Annual Meeting of Stockholders or until their successors are duly elected and qualified.

<u>Name</u>	<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Vote</u>
Judy Bruner	344,691,569	9,229,580	2,333,417	—
David L. House	324,234,555	29,661,773	2,358,238	—
L. William Krause	328,232,479	25,698,082	2,324,005	—

In addition, Renato A. DiPentima, Alan L. Earhart, Sanjay Vaswani, John W. Gerdelman, Glenn C. Jones and Michael Klayko continued to serve as directors of Brocade after the meeting.

2. To approve the 2009 Stock Plan and the number of shares reserved for issuance under this incentive plan.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Vote</u>
249,306,495	41,909,383	149,489	64,889,199

3. To approve the 2009 Director Plan and the number of shares reserved for issuance under this incentive plan.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Vote</u>
263,255,263	27,934,974	175,130	64,889,199

4. To approve the 2009 Employee Stock Purchase Plan and the number of shares reserved for issuance under this incentive plan.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Vote</u>
280,360,421	10,886,498	118,448	64,889,199

5. To ratify the appointment of KPMG LLP as independent registered public accountants of Brocade for the fiscal year ending October 31, 2009.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Vote</u>
351,589,419	4,251,917	413,230	—

6. Consideration of a non-binding stockholder proposal, if properly presented at the meeting, regarding the deletion of the supermajority voting requirements in Brocade's certificate of incorporation and bylaws.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Vote</u>
265,661,800	25,455,824	247,743	64,889,199

7. Consideration of a non-binding stockholder proposal, if properly presented at the meeting, regarding the reorganization of the Board of Directors into one class subject to election each year.

<u>Votes For</u>	<u>Votes Against</u>	<u>Votes Abstaining</u>	<u>Broker Non-Vote</u>
268,488,292	22,656,331	220,744	64,889,199

In addition to the election of Judy Bruner, David L. House and L. William Krause as Class I Directors at the Annual Meeting of Stockholders on April 15, 2009, the 2009 Stock Plan, the 2009 Director Plan, the 2009 Employee Stock Purchase Plan, the ratification of the appointment of KPMG LLP as independent registered public accountants, and the two non-binding stockholder proposals were approved by Brocade's stockholders.

Item 5. Other Information

Corrections to Certificate of Incorporation

On June 1, 2009, Brocade filed with the Secretary of State of the State of Delaware (the "Delaware Secretary"), pursuant to Section 103(f) of the Delaware General Corporation Law (the "DGCL"): (a) two Certificates of Correction to its Restated and Amended Certificate of Incorporation filed with the Delaware Secretary on May 14, 1999 and June 29, 1999, and (b) a Corrected Amended and Restated Certificate of Incorporation first filed with the Delaware Secretary on November 5, 1999. These filings were made to correct a mistake relating to the inadvertent revision of an exculpation provision under Section 102(b)(7) of the DGCL originally provided for in the Certificate of Incorporation filed on February 11, 1999 and, in the case of the Corrected Amended and Restated Certificate of Incorporation, to correct the form in which the Certificate was originally filed. Copies of the Certificates of Correction and Corrected Amended and Restated Certificate of Incorporation are attached hereto as Exhibit 3.5.

Item 6. Exhibits

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Document</u>
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 from Brocade's quarterly report on Form 10-Q for the quarter ended July 28, 2007)
3.2	Amended and Restated Bylaws of the Registrant effective as of February 10, 2009 (incorporated by reference to Exhibit 3.2 from Brocade's Form 8-K filed on February 10, 2009)
3.3	Certificate of Designation of Rights, Preferences and Privileges of Series A Participating Preferred Stock of Brocade Communications Systems, Inc. (incorporated by reference to Exhibit 4.1 from Brocade's Registration Statement on Form 8-A filed on February 11, 2002)
3.4	Certificate of Elimination of Series A Participating Preferred Stock of Brocade (incorporated by reference to Exhibit 3.1 from Brocade's Form 8-K filed on February 16, 2007)
3.5*	Certificates of Correction and Corrected Amended and Restated Certificate of Incorporation effective as of June 1, 2009
4.1	Form of Registrant's Common Stock certificate (incorporated by reference to Exhibit 4.1 from Brocade's Registration Statement on Form S-1 (Reg. No. 333-74711), as amended)
4.2	First Supplemental Indenture dated as of January 29, 2007 by and among McDATA Corporation, Brocade, and Wells Fargo Bank, National Association, as successor in interest to Wells Fargo Bank Minnesota, National Association (incorporated by reference to Exhibit 4.2 from Brocade's Form 10-Q for the quarter ended April 28, 2007)
4.3	Second Supplemental Indenture dated as of January 29, 2007 by and among McDATA Corporation, McDATA Services Corporation, a Minnesota corporation f/k/a Computer Network Technology Corporation, Brocade, and U.S. Bank National Association (incorporated by reference to Exhibit 4.3 from Brocade's Form 10-Q for the quarter ended April 28, 2007)
4.4	Indenture dated February 7, 2003 by and among McDATA Corporation and Wells Fargo Bank Minnesota, National Association (incorporated by reference to Exhibit 4.4 from Brocade's Form 10-Q for the quarter ended April 28, 2007)
4.5	Indenture dated February 20, 2002 by and among Computer Network Technology Corporation and U.S. Bank National Association (incorporated by reference to Exhibit 4.5 from Brocade's Form 10-Q for the quarter ended April 28, 2007)
10.1*/**	Amendment Number 12 dated March 11, 2009, with an effective date of February 28, 2008, to OEM Purchase Agreement between Hewlett-Packard Company and Brocade
10.2*/**	Amendment Number 13 dated March 14, 2009, with an effective date of March 6, 2009, to OEM Purchase Agreement between Hewlett-Packard Company and Brocade
10.3*/**	Amendment Number 14 dated March 14, 2009, with an effective date as of October 24, 2008, to OEM Purchase Agreement between Hewlett-Packard Company and Brocade
10.4*/**	Statement of Work #8, dated April 1, 2009 to Goods Agreement between International Business Machines and Brocade
10.5***	2009 Stock Plan and related forms of agreements (incorporated by reference to Exhibit 10.1 from Brocade's current report on Form 8-K filed on April 27, 2009)
10.6*/***	2009 Director Plan and related forms of agreements

Exhibit Number	Description of Document
10.7***	2009 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.5 from Brocade's current report on Form 8-K filed on April 27, 2009)
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

* Filed herewith.

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

*** Indicates management contract or compensatory plan or arrangement.

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: June 2, 2009

By: /s/ Richard Deranleau

Richard Deranleau
Chief Financial Officer

**CERTIFICATE OF CORRECTION
OF
RESTATED AND AMENDED
CERTIFICATE OF INCORPORATION
OF
BROCADE COMMUNICATIONS SYSTEMS, INC.**

Pursuant to Section 103(f) of the General Corporation Law of the State of Delaware (the "General Corporation Law"), Brocade Communications Systems, Inc., a Delaware corporation (the "Corporation"),

DOES HEREBY CERTIFY:

FIRST: A Restated and Amended Certificate of Incorporation of Brocade Communications Systems, Inc. (the "Restated Certificate of Incorporation") was filed with the Secretary of State of the State of Delaware on May 14, 1999, and said Certificate of Incorporation requires correction as permitted by subsection (f) of Section 103 of the General Corporation Law.

SECOND: The inaccuracy or defect of such Restated Certificate of Incorporation is that Article XII, Section 1 inaccurately expresses the intention to limit the liability of directors of the Corporation.

THIRD: Article XII, Section 1 of the Restated Certificate of Incorporation is corrected to read as follows:

"1. To the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director."

IN WITNESS WHEREOF, this Certificate of Correction of the Restated and Amended Certificate of Incorporation has been signed by a duly authorized officer of the Corporation on June 1, 2009.

BROCADE COMMUNICATIONS SYSTEMS, INC.

By: /s/ Tyler Wall
Name: Tyler Wall
Title: Vice President, General Counsel and Corporate Secretary

**CERTIFICATE OF CORRECTION
OF
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
BROCADE COMMUNICATIONS SYSTEMS, INC.**

Pursuant to Section 103(f) of the General Corporation Law of the State of Delaware (the "General Corporation Law"), Brocade Communications Systems, Inc., a Delaware corporation (the "Corporation"),

DOES HEREBY CERTIFY:

FIRST: An Amended and Restated Certificate of Incorporation of Brocade Communications Systems, Inc. (the "Restated Certificate of Incorporation") was filed with the Secretary of State of the State of Delaware on June 29, 1999, and said Restated Certificate of Incorporation requires correction as permitted by subsection (f) of Section 103 of the General Corporation Law.

SECOND: The inaccuracy or defect of such Restated Certificate of Incorporation is that Article XII, Section 1 inaccurately expresses the intention to limit the liability of directors of the Corporation.

THIRD: Article XII, Section 1 of the Restated Certificate of Incorporation is corrected to read as follows:

"1. To the fullest extent permitted by the Delaware General Corporation Law as the same exists or may hereafter be amended, a director of the Corporation shall not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director."

IN WITNESS WHEREOF, this Certificate of Correction of Amended and Restated Certificate of Incorporation has been signed by a duly authorized officer of the Corporation on June 1, 2009.

BROCADE COMMUNICATIONS SYSTEMS, INC.

By: /s/ Tyler Wall

Name: Tyler Wall

Title: Vice President, General Counsel and Corporate Secretary

**CORRECTED
AMENDED AND RESTATED
CERTIFICATE OF INCORPORATION
OF
BROCADE COMMUNICATIONS SYSTEMS, INC.**

Pursuant to Section 103(f) of the
General Corporation Law of the State of Delaware

This Corrected Amended and Restated Certificate of Incorporation of Brocade Communications Systems, Inc. (the "Corporation") is being duly executed and filed on behalf of the Corporation by the undersigned officer of the Corporation pursuant to Section 103(f) of the General Corporation Law of the State of Delaware (6 *Del. C.* §§ 101 *et seq.*) (the "General Corporation Law") to correct the Amended and Restated Certificate of Incorporation (the "Restated Certificate of Incorporation") first filed with the Office of the Secretary of State of the State of Delaware on November 5, 1999 (the "Effective Date"). An amendment to Article IV of the certificate of incorporation as in effect immediately prior to the Effective Date was duly adopted by the Corporation's Board of Directors and the stockholders in accordance with Section 242 of the General Corporation Law but the Corporation incorrectly filed the Restated Certificate of Incorporation rather than a certificate of amendment. The correction to be made is to accurately set forth the certificate of amendment that the Corporation intended to be filed.

The corrected filing reads in its entirety as follows:

**CERTIFICATE OF AMENDMENT
TO THE
CERTIFICATE OF INCORPROATION
OF
BROCADE COMMUNICATIONS SYSTEMS, INC.**

Brocade Communications Systems, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), DOES
HEREBY CERTIFY:

FIRST: That the Board of Directors of the Corporation approved a resolution by unanimous written consent to amend Article IV of the Certificate of Incorporation of the Corporation to read in its entirety as follows:

1. Authorized Capital. The Company is authorized to issue two classes of stock to be designated, respectively, Common Stock and Preferred Stock. The total number of shares of Common Stock which the Company is authorized to issue is 200,000,000, \$.001 par value, and the total number of shares of Preferred Stock the Company is authorized to issue is 5,000,000, \$.001 par value. The Preferred Stock may be issued from time to time in one or more series pursuant to a resolution or resolutions providing for such issue duly adopted by the Board of Directors (authority to do so being hereby expressly vested in the Board).

The Board of Directors is further authorized to determine or alter the rights, preferences, privileges and restrictions granted to or imposed upon any wholly unissued series of Preferred Stock and to fix the number of shares of any series of Preferred Stock and the designation of any such series of Preferred Stock. The Board of Directors, within the limits and restrictions stated in any resolution or resolutions of the Board of Directors originally fixing the number of shares constituting any series, may increase or decrease (but not below the number of shares in any such series then outstanding), the number of shares of any series subsequent to the issue of the shares of that series.

SECOND: A Special Meeting of the Stockholders of the Corporation was duly called and held on November 3, 1999 in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting a majority of the outstanding shares of the Corporation were voted in favor of the proposed amendment.

THIRD: That said amendment was duly adopted by the Board of Directors and the stockholders of the Corporation in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, Brocade Communications Systems, Inc. has caused this Corrected Certificate of Amendment to be executed by Tyler Wall, its Vice President, General Counsel and Corporate Secretary, this 1st day of June, 2009.

BROCADE COMMUNICATIONS SYSTEMS, INC.

By: /s/ Tyler Wall
Name: Tyler Wall
Title: Vice President, General Counsel and Corporate Secretary

OEM PURCHASE AGREEMENT

Twelfth (12th) Amendment

This Twelfth Amendment ("Amendment") effective as of the 28th day of February 2008 amends the OEM Purchase Agreement dated December 16, 2002 ("OEM Agreement") by and between Hewlett-Packard Company, a Delaware Corporation having a place of business located at 11445 Compaq Center Dr W Houston, Texas 77070, ("HP") and Brocade Communications Systems, Inc., a Delaware corporation having its principal place of business located at 1745 Technology Drive, San Jose, California 95110 ("Brocade").

RECITALS

WHEREAS, HP and Brocade have entered into the Agreement pursuant to which HP agreed to purchase and Brocade agreed to sell OEM Products in accordance with the terms and conditions set forth therein; and

WHEREAS, HP and Brocade desire to develop, and manufacture an additional product that will be added to the OEM Agreement pursuant to this Amendment so that HP may offer such OEM Products for sale to HP customers.

AGREEMENTS

NOW THEREFORE, in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, HP and Brocade agree as follows:

1. Definitions

Terms used in this Amendment that are not defined herein shall have the same meaning given thereto in the Agreement.

2. Confirmation and Ratification

Except as expressly amended herein, all terms and conditions of the Agreement shall remain in full force and effect without modification. All capitalized terms not defined in this Amendment shall have the same meaning as set forth in the Agreement. In the event of a conflict between the Agreement and the Amendment, the terms of this Amendment shall govern.

3. Amendments

HP and Brocade hereby agree that the Agreement is hereby amended to include Product Amendment 12 ("PA12").

The parties have caused this Amendment to be executed by their duly authorized representatives as indicated below.

HP/Brocade Confidential

Amendment 12 to OEM Purchase Agreement

Hewlett-Packard Company

By: /s/ Mark Potter

Name: Mark Potter

Title: SVP & GM, ESS ISB

Phone: _____

Date: 03-11-2009

Brocade Communications Systems, Inc.

By: /s/ Charles Leeming

Name: Charles Leeming

Title: VP, OEM Sales

Phone: _____

Date: 2-23-09

Brocade Communications Switzerland, SarL.

By: /s/ Kevin L. McKenna

Name: Kevin L. McKenna

Title: Director

Phone: _____

Date: 03-March-2009



C. Crocker *CC*

Legal Approved on:
022309

HP/Brocade Confidential

Amendment 12 to OEM Purchase Agreement

Product Amendment 12
To
OEM Purchase Agreement
Between
Hewlett-Packard Company
And
Brocade Communications Systems, Inc.
Dated December 16, 2002

1. Purpose

This PA12 sets forth the work efforts and requisite responsibilities of each party for the development, manufacturing, distribution and support of the HP [**] Module Product as defined in this PA12, which incorporates the physical characteristics, functionality and commands as defined herein. This PA12 also defines the design, schedule and performance expectations as well as exclusivity and marketing arrangements for such Product. The terms of this PA12 are set forth herein and the following attachments hereto are incorporated into this PA12 by reference:

Attachment A: Milestone Schedule
Attachment B Marketing Program
Attachment C Product Pricing List

2. Definitions

For purposes of this PA12, the following definitions shall only apply to this PA12. Capitalized terms used in this PA12 but not otherwise defined herein shall have the meanings set forth in the OEM Agreement. These terms are:

- 2.1. "Acceptance Test" means demonstration of the Product's compliance with the Brocade test plan approved by HP and proven interoperability with the HP product.
- 2.2. "Beta Units" means Pilot Units that may be marked for revision control and are Qualified.
- 2.3. "Brocade Intellectual Property" means the technology listed in Section 10.1 of this PA12 and all other Intellectual Property Rights described in section 10.6.2 of this PA12.
- 2.4. "Brocade Pre-Existing Intellectual Property," means any Brocade-owned Intellectual Property Rights, as defined in this PA12, that Brocade conceived or developed prior to or independent of its performance under the terms of this PA12.
- 2.5. "Definition Phase" means the part of the project used to determine the final feature set of the Product.
- 2.6. "Deliverable(s)" means the items, including the final production ready version of the Product, specified in Section 8.1 resulting from Brocade's performance under this PA12.
- 2.7. "EAI" means a First Article Inspection of a Product that may be marked for revision control and is fully compliant to the product feature sets and meets all elements required in the HP Specifications under all conditions.
- 2.8. "HP Licensed Work(s)" shall consist of the HP intellectual Property licensed to Brocade and described in 10.3 of this PA12.

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

- 2.9. “HP Technical Specification(s)” or “HP Specification(s)” means the specifications that are listed in Section 10.3.1 of this PA12, along with any mutually agreed upon revisions thereto.
- 2.10. “HP Intellectual Property” means technology listed in section 10.3 of this PA12 and any other Intellectual Property Rights described in section 10.6.1 of this PA12.
- 2.11. “HP Pre-Existing Intellectual Property” means any HP-owned Intellectual Property Rights, as defined in this PA12, that HP conceived or developed prior to or independent of its performance under the terms of this PA12.
- 2.12. “Internal (internally)” means that Licensed Works are to be used solely by Brocade only at Brocade facilities and only by Brocade’s employees assigned to perform work hereunder. Brocade may on a limited basis disclose the Licensed Works to third-party subcontractors pursuant to Section 10.4.2 of this PA12.
- 2.13. “Intellectual Property Rights” means patents, copyrights, trade secrets, masks works, and design rights, whether registered or unregistered, and including any application for registration of any of the foregoing and all rights or forms of protection of all rights of a similar nature having equivalent or similar effect to any of these, which may subsist anywhere in the world.
- 2.14. “Product” means for the purposes of this PA12 the [**]Module ([**]) hardware for HP c-Class BladeSystem, the associated firmware versions, Specific Software and the Option Kits. Content will be delivered in [**] phases and/or releases as defined in section 8.4 below.
- 2.15. “Prototype Units” means functional prototype units that are the correct form factor and demonstrate general compliance to the major product feature sets, but are not expected to meet all elements required in the HP Specifications under all conditions.
- 2.16. “Pilot Units” means a functional pilot unit that is the correct form factor and demonstrate that they are largely compliant to all product feature sets except for limited software defects and final regulatory compliance.
- 2.17. “Qualified” means the Product has passed the Acceptance Test which has been mutually approved by the parties.

3. HP Responsibilities

HP shall have the following responsibilities, per the milestone schedule on Attachment A:

3.1. Design/Develop

3.1.1. Hardware

- A. Provide technical support, including design review and documentation review.
- B. Provide the final HP Technical Specifications for the Product, and other information, which may include HP Licensed Works, as needed by Brocade necessary to meet Product requirements.
- C. HP will supply [**] parts/assemblies required for Brocade’s successful completion of its obligations under this PA12; [**]. Once the [**] parts/assemblies become commercially available, Brocade shall replace all [**] Units with [**] commercially available products [**], and return all the [**] Units [**]. Brocade shall treat [**] Units as HP Confidential Information.

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

D. The parties shall meet in good faith to resolve any dispute regarding either party's obligations under this section 3.1.1, and either party may invoke the escalation procedures outlined in section 12.2 to resolve the matter.

3.1.2. Mechanical

- A. Approve final design.
- B. Provide technical support, including design review and documentation review.
- C. Provide product specification, and other information as needed by Brocade necessary to meet Product requirements.

3.1.3. Firmware

- A. Provide technical support including design and documentation review.
- B. Provide final HP Technical Specifications and associated information as needed by Brocade to complete the design project defined herein this PA12.

3.1.4. Option Kit

- A. Provide technical support, including design review.
- B. Provide specifications and other associated information as needed by Brocade necessary to meet Product requirements.
- C. Provide image for all printed materials.

3.1.5. Power Supply (internal regulation)

- A. Provide technical support and consulting.
- B. Provide information as needed by Brocade necessary to meet Product requirements.

3.1.6. Packaging

- A. Provide packaging drawings and final approval of design.

3.1.7. Documentation

- A. Create HP end user documentation.
- B. Provide technical support for printed materials, including review.

3.2. Qualification Testing

3.2.1. Hardware

- A. Review and approve all hardware qualification and regulatory testing and certification of the Product, including:
 - 1. Reliability
 - 2. Regulatory
 - 3. Safety
 - 4. Signal Integrity Testing

3.2.2. Firmware

- A. Provide HP Technical Specifications.
- B. Review and approve Brocade's test plan.

3.2.3. Feature/Interoperability

A. System integration testing.

3.3. Support

3.3.1. Prototype and Pilot units

A. Reporting of detected defects and issues.

4. Brocade Responsibilities

Brocade shall have the following responsibilities:

4.1. Design / Development / Manufacturing

4.1.1. Design, develop, and deliver Product that is fully compliant with the requirements specified in HP Technical Specifications, as may be amended by mutual agreement of the parties.

4.1.2. Develop the Test Plans (as defined in Section 6 of this PA12) and obtain HP's approval of the Test Plans prior to implementation.

4.1.3. Design, develop, manufacture, and deliver to HP the Deliverables per the milestone schedule in Attachment A.

4.1.4. Conduct appropriate testing before delivery of all the Prototype and Pilot units.

4.1.5. Provide to HP technical support during HP's testing of the Prototype and Pilot units, Beta Units, and site Pilot Units.

4.1.6. At a minimum, meet on a regularly scheduled interval (suggest weekly) to communicate to HP the program's progress.

4.1.7. Brocade is responsible for securing all [**] equipment required to perform any Product testing requirements hereunder.

4.2. Brocade Payment Obligations For HP Furnished Equipment

4.2.1. Brocade shall pay HP for all commercially available test equipment [**].

4.3. Marketing

4.3.1. Brocade shall work jointly with HP to develop a Go-To-Market plan as described in Attachment B.

4.3.2. Brocade shall provide technical content to support the development of at least two HP [**] papers related to SAN design, configuration and interoperability with Brocade products for pre-sales technical sales groups in accordance with the terms describe in Attachment B.

4.3.3. Brocade shall participate in HP direct and indirect sales channel programs for enterprise and small and medium business ("SMB") markets, as determined by the appropriate HP sales organization, where HP blade server products and related services are included in accordance with the terms described in Attachment B.

4.3.4. Brocade shall provide technical training to HP related to SAN design, configuration and interoperability in accordance with the terms of the Agreement for the products developed under this PA12.

5. Joint Responsibilities

HP and Brocade shall:

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

- 5.1. Work together to amend HP Licensed Works per the milestone schedule. Any changes to the later HP Licensed Works shall be mutually agreed upon and in writing by the program managers as assigned in Section 13.
- 5.2. Agree in writing to the Milestone Schedule of Attachment A and any changes thereto, including design, development, test, and manufacturing ramp of the Product.

6. Product Development Process

- 6.1. The Product shall be the result of the combination of the HP Licensed Works with Brocade Intellectual Property, and the unique development resulting therefrom, as mutually agreed between the parties. Upon finalization of the documents that comprise the HP Licensed Works by HP and upon agreement with Brocade, the parties shall do the following:
 - 6.1.1. During the Definition Phase of the Product, both HP and Brocade shall work to finalize the features for the Product.
 - 6.1.2. During the design of the Product, Brocade shall engineer the Product to conform to the HP Licensed Works and other documents as deemed mutually required by the parties and report on engineering-related issues.
 - 6.1.3. After the initial design is completed, Brocade shall provide mutually agreed-upon test plans to ensure the Product reliability and performance ("Brocade Test Plans").
 - 6.1.4. During the transition of the Product to manufacturing, HP shall perform its standard FAI of the Product and after meeting the Acceptance Test, HP will provide a letter of acceptance indicating Brocade's completion of this activity.

7. Development Schedule Requirements

7.1. Program Schedule

- 7.1.1. Brocade shall deliver the Deliverables and perform the obligations as set forth in this PA12 in accordance with the Milestone Schedule, Attachment A.
- 7.1.2. HP shall deliver the supporting deliverables set forth in this PA12, in accordance with the Milestone Schedule, Attachment A. Any program slips by either party must be agreed upon in writing by HP and Brocade.
- 7.1.3. Any program schedule changes resulting from the normal program development cycle must be agreed upon in writing by HP and Brocade. Both parties will use good faith and due diligence to ensure proactive notification of potential program slips prior to major program milestones as defined by the Milestone Schedule, Attachment A.

8. Deliverables, Schedule, and Milestones

8.1. Brocade Deliverables:

- 8.1.1. Product design
- 8.1.2. Product
 - [**]
 - [**]
 - [**]

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

- 8.1.3. Product qualification test plan
- 8.1.4. Product production test plan
- 8.1.5. Product support and escalation path definition
- 8.1.6. Product failure tracking reports as required

8.2. HP Deliverables:

8.2.1. HP Technical Specifications

- [**]
- [**]
- [**]
- [**]
- [**]
- [**]

8.3. Hardware Schedule and Milestones

- 8.3.1. The Product hardware schedule shall be in accordance with the Milestone Schedule, Attachment A of this PA12.
 - 8.3.2. Brocade understands and agrees that its adherence to the schedule provided in Attachment A is a material term of this PA12; provided, however, that in the event that Brocade is delayed in the completion of any milestone or Deliverable by reason of any act or omission of HP, the timeframe within which such Deliverable milestone is to be completed will be mutually agreed upon. The parties recognize that unforeseen factors may necessitate changes to the above Schedule, and such changes may be made with the mutual agreement of the parties.
- 8.4. **Software/Features Milestones.** Milestones will be as specified herein this Section 8.4 and Attachment A to this PA12. The software capabilities will be delivered across three deliveries/releases identified herein as phase one, phase two and phase three and the contents of each release shall be as stated in and functionality agreed upon in the Interface Requirements Specification. All updates and changes to the software features and milestones will be mutually agreed upon between the parties.

9. Acceptance

- 9.1. Acceptance testing shall commence as set forth in this PA12, and the Milestone Schedule. Acceptance testing shall be conducted in accordance with the procedures and criteria set forth in the Acceptance Test. The Product shall be deemed accepted after successful completion of the acceptance testing and a determination by the parties that the Product complies with the Acceptance Test Plan.
- 9.2. In the event that the Product fails to meet the acceptance criteria, Brocade agrees to make commercially reasonable changes to the Product to correct identified errors or non-compliance. Brocade shall make commercially reasonable efforts to deliver the corrected Product within thirty (30) calendar days after determination that the Product has not been accepted, unless the parties mutually agree to a different time period. If Brocade fails to make such changes or perform such changes within the required time period, or the Product still is not accepted, then HP may terminate this Product Amendment with ten (10) business day's written notice to Brocade. Notwithstanding

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

the foregoing, should a determination be made that the root cause of the problem lies in a HP component of the product; then HP will take commercially reasonable steps to rectify it and assist Brocade in the integration testing and resolution. The parties shall meet in good faith to resolve any dispute regarding either party's obligations under this section 9.2, and either party may invoke the escalation procedures outlined in section 12.2 to resolve the matter.

10. License Grants, Ownership, and Confidentiality

10.1. Brocade Intellectual Property

With the exception of any HP Licensed Materials or HP Intellectual Property included in the Product, the Product includes the following Brocade Intellectual Property:

- [**]
- [**]
- [**]
- [**]
- [**]

10.2. License Grant from Brocade to HP

- 10.2.1. Subject to the terms and conditions of this PA12, Brocade hereby grants HP during the term of this PA12 a non-exclusive, non-transferable, revocable, worldwide, royalty-free, internal-use license under Brocade's Intellectual Property Rights in the Deliverables including any software in the Deliverables (in object code only), the Documentation, and the Brocade technology listed in Section 10.1 solely to evaluate and test the Brocade technology for use as integrated in the Product.
- 10.2.2. HP's purchase and distribution rights including License grants from Brocade to HP shall be as provided for in Sections 5, 11 and 13 and Exhibit (A-4) of the OEM Purchase Agreement.
- 10.2.3. HP will not decompile, reverse engineer, disassemble, or otherwise modify any Brocade Intellectual Property without written authorization from Brocade.

10.3. HP Licensed Works and HP Intellectual Property

The HP Licensed Works are listed below. The HP Licensed Works shall also constitute HP Intellectual Property for the purposes of this Agreement, with the exception of any Brocade Intellectual Property or Brocade Pre-existing Intellectual Property. The HP Licensed Works may also include subsequent versions that contain mutually agreed upon changes in writing, as defined in Section 5.1:

- 10.3.1. HP Technical Specifications as listed below.
 - [**].
 - [**].
 - [**]
 - [**]
 - [**]
 - [**]
 - [**]
 - [**]
 - [**]

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

10.4. License Grant from HP to Brocade

- 10.4.1.** HP hereby grants to Brocade a [**]to [**]use the Licensed Works solely to the extent required (i) to design, manufacture and have manufactured, and supply the Product solely to HP and provide services therefore during the Term, and thereafter as long as Brocade is obligated to provide Services and (ii) to make and have made the Product solely for HP's benefit and to the extent required for Brocade to fulfill its obligations under this PA12.
- 10.4.2.** Subject to the prior written consent of HP, not to be unreasonably withheld, Brocade may disclose the Licensed Works to third-party subcontractors (which may include Brocade's manufacturer) who have a need to know the Licensed Works and whose services are necessary in order for Brocade to meet Brocade's obligations under this PA12. Prior to Brocade's disclosure of any HP Licensed Works, to any such subcontractor, the subcontractor shall execute an appropriate confidential disclosure agreement with Brocade that is at least as restrictive as the CDA between the parties and does not grant to the subcontractor the use of residuals of HP Confidential Information. Brocade and such subcontractor shall also execute an agreement that appropriately restricts the subcontractor use of the Licensed Works solely to those uses granted to Brocade in Section 10 of this PA12.
- 10.4.3.** In the event the parties agree that Brocade may require further rights under HP's intellectual property rights in order to perform its obligations under the OEM Purchase Agreement or this PA12, the parties shall discuss what further rights may be required by Brocade under terms consistent with the terms of this Section 10. HP agrees to consider in good faith and will not unreasonably deny Brocade's request for further rights that Brocade believes it requires in performing its obligations under the OEM Agreement or this PA12; however, HP has complete discretion to grant or deny the granting of such rights. Should HP decide to deny Brocade's request, then the parties shall meet in good faith to resolve the dispute, and either party may invoke the escalation procedures outlined in section 12.2 to resolve the matter.
- 10.4.4.** Brocade will not decompile, reverse engineer, disassemble, or otherwise modify any HP software without written authorization from HP.

10.5. Feedback

In the event that Brocade provides HP with feedback on or modifications to the HP Licensed Works, HP shall own all rights, title and interest in and to that feedback or modifications. Brocade hereby assigns all right, title, and interest to the feedback that Brocade gives on the HP Licensed Works or any modifications that Brocade makes to the HP Licensed Works. Notwithstanding the foregoing, information concerning new design efforts or modifications by Brocade to the Brocade Intellectual Property is solely owned by Brocade. Any feedback or modifications provided by Brocade to the HP Licensed Works shall not be deemed Brocade Confidential Information.

10.6. Ownership of Intellectual Property Rights

10.6.1 HP Intellectual Property

HP shall own all Intellectual Property Rights in the HP Pre-Existing Intellectual Property, the HP Licensed Works specified in section 10.3

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

including any modifications to such HP Licensed Works and the HP Technical Specifications. HP Intellectual Property Rights shall not include any of the Brocade Intellectual Property Rights as defined in section 10.6.2.

10.6.2 Brocade Intellectual Property

Brocade shall own all Intellectual Property Rights in the Brocade Pre-Existing Intellectual Property and the Product as defined in section 2.14 of this PA12, including any designs, improvements, modifications and discoveries related to the Product that Brocade develops while performing its obligations under this PA12. Brocade Intellectual Property Rights shall not include any of the HP Intellectual Property Rights as defined in section 10.6.1.

10.7. [**]

10.7.1. Hardware

It is understood and agreed that the [**] Module [**].

10.7.2. Specific Software

Brocade will develop and provide to HP software for the Product [**] (“Specific Software”).

The terms of the [**] arrangement is limited to the Specific Software [**].

The [**] term for HP[**].

10.8. Third Party Software

Brocade warrants that the license documents for the open source Software code license documents shall match the supplied open source Software code by name, date, version and/or release number pursuant to the OEM Agreement.

11. Payment

11.1. **Non-Recurring Expenses (NRE)**, HP [**] to Brocade under this PA12.

12. Term and Termination of Product Addendum

12.1. Term

Unless otherwise terminated as provided herein, the term of this PA12 shall commence on the Effective Date and shall continue in effect until the Product is made generally available or terminated for cause as set forth herein below.

12.2. Escalation.

Each Party agrees that disputes between the Parties relating to this PA12 will first be submitted in writing to a panel of two senior executives, one each from HP and Brocade, who shall promptly meet and confer in an effort to resolve such dispute. Each Party’s executives shall be identified by notice to the other Party, and may be changed at any time thereafter also by notice to the other. Any decisions of the executives will be final and binding on the Parties. In the event the executives are unable to resolve any dispute within thirty (30) days after submission to them, either Party may then proceed to resolve such dispute by invoking the termination provisions in accordance with this section 12.

12.3. Termination for Convenience

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

The parties may terminate this Agreement at any time for convenience upon mutual written agreement by the parties.

12.4. Termination for Cause

In the event that either party materially breaches any of its obligations set forth herein, and fails to cure such breach within thirty (30) days following receipt of written notice of such breach, the non-breaching party may terminate this PA12 and all licenses granted to the breaching party hereunder by providing written notice of such termination.

12.5. Change of Control

In the event that Brocade undergoes a Change of Control, HP shall have the option to immediately terminate this PA12. In the event of a termination under this Section 12.5, the parties shall return, any or all Confidential Information, HP Licensed Works, Brocade Intellectual Property or other materials owned by the other party which are in the possession of the receiving party and for which such party does not have a license permitting continuing use.

12.6. Effect of Termination

All confidentiality obligations and all other obligations which by their nature are intended by the parties to survive, shall survive and continue in effect to the extent necessary to protect the rights of the parties and their sub-licensees, including end-users.

13. Program Management

Brocade and HP shall each assign a Program Manager who will act as the primary point of contact for purposes of this PA12. The parties' Program Managers are:

Hewlett Packard:

[**]
14231 Tandem Blvd.
Austin, TX 78728

Brocade Communications:

[**]
1745 Technology Drive
San Jose, CA 95110

Each party may change their designated Program Manager by providing written notice to the other in accordance with the OEM Agreement.

14. General

This PA12 together with all terms and conditions, rights, and obligations under the OEM Agreement and the CDA, shall be the entire agreement of the Parties. The terms and conditions of the PA12 are hereby incorporated into and made a part of the OEM Agreement.

Brocade agrees that there are no contingencies associated with the Deliverables, schedule or cost as defined by this PA12 or upon final award of business for the product described within the PA12.

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

Attachment B
To Amendment 12
[**]
[] Fibre Channel Module**
For
HP []**

1. Purpose

This Attachment B sets forth the marketing arrangements between the parties for Products developed and distributed under this PA12.

2. Marketing Responsibilities

2.1. Through the [**] HP and Brocade will work together [**]

3. Joint Marketing

3.1. Branding

3.1.1. The Product [**]. The Product shall [**].

3.1.2. The Product shall be [**] and [**] externally [**] HP product, and Brocade [**]with Brocade products/fabric, etc.

3.2. Product Messaging and Promotion

3.2.1. HP and Brocade will work together to provide consistent product messaging on customer facing collateral in order to present a common value proposition to the customer.

3.2.2. Brocade shall present the compatibility and interoperability of HP's [**]products with Brocade products

3.2.3. Brocade will [**] HP and Brocade [**].

3.2.4. Brocade will work jointly with HP to [**] for the [**] platform.

3.3. Customer Engagement

3.3.1. Brocade shall work [**]with HP [**].

3.3.2. Brocade will [**]with HP[**].

3.3.3. Brocade [**] HP [**]product [**].

3.4. Value-Added Features

3.4.1. Brocade will work with HP to [**] Product [**].

3.4.2. Brocade and HP will [**] in Product [**] with Brocade [**].

3.4.3. [**]Brocade can [**] HP [**] Brocade [**].

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

Attachment C
To Amendment 12
Product Pricing List

Brocade Product Pricing

The unit price shall be per the mutually agreed Product price quoted from Brocade to HP as an electronic file named [**].

The price quote includes [**]

The price quote does not include [**]

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

HP/Brocade Confidential

Amendment 12 to OEM Purchase Agreement

**OEM PURCHASE AGREEMENT****THIRTEENTH AMENDMENT**

This THIRTEENTH AMENDMENT TO THE OEM PURCHASE AGREEMENT (the "Amendment") supplements that certain OEM PURCHASE AGREEMENT 1526-031701, which has an effective date of December 16, 2002 and which is by and between Hewlett-Packard Company (herein "HP"), BROCADE COMMUNICATIONS and BROCADE COMMUNICATIONS SWITZERLAND SARL (herein "Supplier").

RECITALS

WHEREAS, HP and Supplier have previously entered into the OEM Agreement (the "Agreement") stated above;

WHEREAS, the purpose of this Amendment is to set forth commercial and other terms and conditions for Product sold by Supplier and purchased by HP pursuant to the Agreement; and

WHEREAS, HP and Supplier desire to supplement the Agreement as herein provided.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, HP and Supplier hereby agree as follows:

1. The effective date ("Effective Date") of this Amendment is March 6, 2009 however; the effective date of the change detailed at paragraph 4 below is effective retroactively to the Effective Date of the Agreement.
2. Capitalized terms used herein, unless otherwise defined, will have the meanings given in the Agreement.
3. This Amendment may be signed in original or emailed counterparts, and each counterpart will be considered an original, but all of which together will constitute one and the same instrument.
4. Section 1.1 of the Agreement is modified to include the following sentence:
Notwithstanding anything in this Agreement to the contrary, Supplier acknowledges and agrees that all OEM Product, [***], purchases by HP and its Eligible Purchasers from Supplier shall be governed by the terms of this Agreement whether or not set forth in an Exhibit to this Agreement.
5. The Agreement continues in full force and effect, and except as may be expressly set forth in this Amendment, the Agreement is unchanged.
6. For all other new or different products not covered by Section 4 above or a special development agreement or amendment to the Agreement, the parties agree to discuss the relative terms and conditions and either add the products to the Agreement or create a new amendment to address unique terms and conditions associated with such product.

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



IN WITNESS WHEREOF, the parties, intending to be legally bound hereby, have executed this Agreement as of the Effective Date.

AGREED:

**BROCADE COMMUNICATIONS
SYSTEMS INC. ("Supplier")**

**HEWLETT-PACKARD COMPANY
("HP")**

By: /s/ Charles Leeming

By: /s/ Richard Gentilini

Name: Charles Leeming

Name: Richard Gentilini

Title: VP, OEM Sales

Title: Dir, SWD Global Procurement

Date: 1/8/09

Date: 3-14-09

**BROCADE COMMUNICATIONS
SWITZERLAND, SARL. ("Supplier")**

By: /s/ Ulrich Plechschmidt

Name: Ulrich Plechschmidt

Title: Vice President FMEA

Date: 12-January-2009



BROCADE

C. Crocker 

Legal Approved on:
January 8, 2009

OEM PURCHASE AGREEMENT**FOURTEENTH AMENDMENT**

This FOURTEENTH Amendment (the "FOURTEENTH Amendment") effective as of October 24, 2008, (the "Effective Date") amends the OEM Purchase Agreement (the "Agreement") dated December 16, 2002, by and between HEWLETT-PACKARD COMPANY, a Delaware corporation having its principal place of business at 3000 Hanover Street, Palo Alto, California 94304 ("HP") and BROCADE COMMUNICATIONS SYSTEMS, INC. a Delaware corporation having its principal place of business at 1745 Technology Drive, San Jose, California 95110, and BROCADE COMMUNICATIONS SYSTEMS SWITZERLAND SARL., a corporation organized under the laws of Geneva, and having its principal place of business at 29 Route de l'Aéroport Case Postale 105, CH-1215 Geneva 15, Switzerland (collectively "Supplier").

RECITALS

WHEREAS, HP and Supplier have entered into the Agreement pursuant to which HP agreed to purchase, and Supplier agreed to sell OEM Products in accordance with the terms and conditions set forth therein; and,

WHEREAS, HP and Supplier desire to enter into this FOURTEENTH Amendment to addend new OEM Products to the Agreement.

AGREEMENTS

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, HP and Supplier agree as follows:

This is a Product Addendum that is intended to name additional OEM Products to the Agreement in accordance with Section 2.18 of the Agreement. This addition will cause the following Exhibits to be amended:

Exhibit A OEM Products and Specifications. HP Products that have been launched since the date of the OEM Agreement that have not been previously addended to the Agreement are listed in Attachment A and are hereby incorporated. These include [**] Part numbers for Brocade products that may have already been included in the OEM Agreement. This is intended to capture all [**] part numbers not previously covered under this Agreement. These will be subject to [**] the Agreement. Specifications for these products will be stored in each party's respective revision controlled document systems, [**].

Exhibit C Pricing and Fees. Each Product being added to this Agreement is listed in Attachment A with the initial cost at the time of the launch of the

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

product. The parties negotiate costs from time to time as referenced in Section 4.1. It is not necessary to amend the Agreement as a result of these changes.

Exhibit H HP Supplier Quality Assurance Requirements and Additional Warranties. Each Product being added to this Agreement must meet the agreed-to [**]. Reports provided to HP will include data for these products.

The parties have caused this Amendment to be executed by their duly authorized representatives as indicated below.

AGREED:
BROCADE COMMUNICATIONS
SYSTEMS INC. ("SUPPLIER")

HEWLETT-PACKARD COMPANY
("HP")

By: /s/ Charles Leeming

By: /s/ Richard Gentilini

Name: Charles Leeming

Name: Richard Gentilini

Title: VP, OEM Sales

Title: Director, SWD Global Procurement

Date: 10/24/08

Date: 3-14-09

AGREED:
BROCADE COMMUNICATIONS
SWITZERLAND, SARL. ("SUPPLIER")

By: /s/ Ulrich Plechschmidt

Name: Ulrich Plechschmidt

Title: Vice President FMEA

Date: 24-October-2008

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

HP / Brocade CONFIDENTIAL

Page 2 of 3

Attachment A
OEM Products – Pricing and Fees

A list of OEM Products with their Pricing and Fees at the time of their initial launch are hereby attached. The Products may change revision from time to time, as mutually agreed by the parties. It is not necessary to amend the Agreement when the Products are revised.

[**]

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

HP / Brocade CONFIDENTIAL

Page 3 of 3

**GOODS AGREEMENT
STATEMENT OF WORK**

**Agreement # ROC-P-68
SOW# 8**

This Statement of Work #8 (“SOW #8”) adopts and incorporates by reference and solely for the purposes of this SOW #8 amends certain terms and conditions of Goods Agreement # ROC-P-68 (the “Agreement”) between International Business Machines Corporation (“Buyer”) and Brocade Communications Systems, Inc. and Brocade Communications Switzerland SarL (collectively, “Supplier”). Transactions performed under this SOW #8 will be conducted in accordance with and be subject to the terms and conditions of this SOW and the Agreement. The initial term of this SOW #8 shall be effective upon the last signature to this SOW #8 (“Effective Date”). The initial term of this SOW #8 is three (3) years from the Effective Date (the “Initial Term”). Upon expiration of this Term, this SOW will be automatically renewed for additional one (1) year terms (each period, a “Renewal Term”) unless terminated by either party upon [**]written notice prior to the expiration of any Renewal Terms. (Unless otherwise specified, the Initial Term and each Renewal Term shall be collectively referred to as the “Term”). Unless otherwise provided herein, capitalized terms shall have the meaning as set forth in the Agreement.

R E C I T A L S

WHEREAS, Buyer and Supplier desire that Buyer become the worldwide leader in sales of Ethernet networking products through the OEM distribution of Supplier’s portfolio of Ethernet networking products covered by this SOW;

WHEREAS, Buyer and Supplier desire to attain first year revenue of [**] USD and second year revenue of \$[**] USD; provided, however, neither party has guaranteed to the other that such revenue targets will be achieved; and

WHEREAS, in order to accelerate Buyer’s entry and growth into this product segment and in recognition of Supplier’s status as Buyer’s preferred vendor for such Ethernet networking products, [**]; and.

WHEREASNOW, THEREFORE, in consideration of the mutual premises and other good and mutual consideration contained herein, Supplier and Buyer agree as follows:

A G R E E M E N T

1.0 PRODUCT DESCRIPTION

1.1 Initial Products

The following is the initial set of Products to be made available to Buyer under this SOW #8: NetIron MLX 4/8/16 Slot Chassis, NetIron CES 2000 48-port switches, FastIron GS 48-port switches and FastIron SX800/SX1600 chassis. A complete description and listing of Products and related post warranty maintenance and support service offerings is attached hereto as Attachment A, which may be updated from time to time by written consent of the parties.

1.2 Customization Of Products

1.2.1 Products will be sold and marketed under the Buyer’s brand;

1.2.2 Supplier products that are already generally available by Buyer’s announcement date will not be subject to customization, unless agreed to by Supplier and Buyer in advance; provided, however, that such products will receive new Mylar (i.e., the Buyer logo) and labels, but there will be no changes from the Supplier black paint to Buyer black paint and no painting in areas that are not currently painted;

1.2.3 Future customization support for new releases of these products or for added products will be as mutually agreed upon; and

1.2.4 Supplier will meet Buyer’s accessibility requirements process in a mutually agreed upon timeframe.

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

1.3 Future Product Roadmap

Supplier is not required to include any Buyer-specific future features, product lines, software code streams or any other custom product or accessories, unless otherwise agreed. Buyer and Supplier will work to unify the Supplier product set with Buyer data center management offerings (e.g., Director/Tivoli).

1.4 Open Source Software

Supplier will deliver at the earlier of a date requested by Buyer or prior to its first shipment of Product: (i) a fully completed and signed certificate of originality (in a form to be specified by Buyer) for all Code and Documentation, and (ii) all Code and Documentation owned or licensable by Supplier that is required to operate the Products and for the purpose of facilitating the basic design or use of the Products including, by way of example, all drivers, firmware and software development kits associated with the Products or useful in the design of Buyer systems which will incorporate Products. The foregoing will be provided in a format and media as specified by Buyer. Additionally, Supplier will promptly deliver to Buyer all updates (including, without limitation, all error corrections, enhancements and new versions) to such Code and Documentation in the same format and media as specified by Buyer.

1.5 Certifications

Supplier is responsible (at its own cost) for obtaining Supplier's standard agency approvals as agreed to by the Parties. Should Buyer require multiple listing registration of such agency approvals, Supplier will assist Buyer, at Buyer's cost. Cost of any unique or incremental listings agreed to by the parties will be at Buyer's expense.

1.6 Quality Standards

1.6.1 Supplier shall provide to Buyer information documenting the Products' compliance with the quality standards set forth as Attachment B to this SOW#8.

1.6.2 Any of Supplier's contract manufacturers shall be certified to an ISO 9000 standard or higher.

1.6.3 At Buyer's request, supplier shall perform failure analysis on failed Products returned to Supplier. Upon determining the root cause of the failure, Supplier shall communicate that root cause to Buyer and establish a corrective action plan to remediate such root cause. Buyer will assist Supplier with tracking all open failures and will work with Supplier to implement appropriate corrective action as reasonably determined necessary by Supplier.

1.7 General Product Specifications

Where applicable, Products will comply with all the requirements set forth in the Buyer documents identified below:

- CS1-1121-015, IBM Corporate Standard "Automatic Identification (AI) for Packaging, Distribution and Manufacturing — Bar Coded Labels"
- BA21-9261-11b, "Packaging and Handling - Supplier and Interplant Requirements"
- ISO 2859, Sampling Procedures for Inspection by Attributes
- ISO 3951, Sampling Procedures for Inspection by Variables
- EIA - 599 - A, Continuous Improvement
- EIA - 659 - A, Failure, Mechanism, Driven Reliability Monitoring
- EIA - 670, Quality System Assessment
- EIA - 671- A, Problem Analysis and Corrective Actions
- EIA - JESD - 38, Standard for Failure Analysis Report Format
- EIA - JESD - 46, Product Change Notice
- EIA - JESD - 50, Maverick Product Elimination
- SQE 001 ECAT Supplier Quality Requirements
- Supplier's published specifications, catalogs, marketing materials, and other documentation, including references in such materials to future upgrades or performance
- FAA Certification, Supplier certifies that Products and their packages do not contain explosives, hazardous materials, incendiaries and/or destructive devices as defined by the FAA
- IBM Environmental Engineering Specifications 46G3772, and either 53P6233 or 97P3864 (as approved by Buyer) found in the Environmental Requirements section of IBM's Information for Suppliers website:

(<http://www-03.ibm.com/procurement/proweb.nsf/ContentDocsByTitle/United+States~Information+for+suppliers>).

- All Product claims, descriptions, specifications, and other requirements described in the Product bill of material, elsewhere in this Agreement, and via other written or electronic communications sent from or approved by Buyer.
- Supplier Quality Requirements Document (SQRD).
- Product Quality Addendum (PQA)
- Vol 3 section 3.1.1 of the IBM Global Label guidelines documents the required format for shipping labels:
[http://www-03.ibm.com/procurement/proweb.nsf/objectdocswebview/fileglobal+labeling+guide+3/\\$file/gl_guide_3.pdf](http://www-03.ibm.com/procurement/proweb.nsf/objectdocswebview/fileglobal+labeling+guide+3/$file/gl_guide_3.pdf)
Please be advised that all IBM Global Label Guidelines can be found externally on the IBM Global Procurement website:
<http://www-03.Buyer.com/procurement/proweb.nsf/ContentDocsByTitle/United+States~Global+labeling+guides?OpenDocument&Parent=Information+for+suppliers>
- The IBM Corporate Standard for country of origin marking can be found at:
[https://w3-03.ibm.com/chq/ico/icoweb.nsf/ObjectFileDocView/C-S+1-1121-003+Country+of+Origin+Labeling+for+Products,+Sub-assemblies+and+Parts+Jun2004.pdf/\\$File/C-S+1-1121-003+Country+of+Origin+Labeling+for+Products,+Sub-assemblies+and+Parts+Jun2004.pdf](https://w3-03.ibm.com/chq/ico/icoweb.nsf/ObjectFileDocView/C-S+1-1121-003+Country+of+Origin+Labeling+for+Products,+Sub-assemblies+and+Parts+Jun2004.pdf/$File/C-S+1-1121-003+Country+of+Origin+Labeling+for+Products,+Sub-assemblies+and+Parts+Jun2004.pdf)
- The IBM Corporate Standard for Accessibility Guidelines can be found at:
<http://www-03.ibm.com/procurement/proweb.nsf/ContentDocsByTitle/United+States~Accessibility+guidelines+for+suppliers?OpenDocument&Parent=Information+for+suppliers>
Buyer and Supplier will mutually agree to the applicable Accessibility Guidelines for each Product.

2.0 PART NUMBERS, PRICE AND OTHER TERMS

2.1 Pricing

All product part numbers and pricing are attached hereto as Attachment A, Products and Pricing.

All prices are in U.S. dollars. Transfer prices will be based on [**], as shown in Attachment A, and such prices will be updated to reflect changes to [**]. Supplier agrees to give Buyer [**]. No price increases would be effective until 30 days after such notice is received.

Supplier agrees to a minimum [**]. Both Supplier and Buyer must mutually agree to additional products added to the agreement.

Supplier agrees to provide a quarterly rebate of one percent (1%) on those [**] if Buyer achieves the quarterly revenue spend targets with Supplier set forth below. The initial eligibility period is [**]. If Buyer [**] for [**] and [**], then [**]. The parties will [**] for the foregoing [**] shall be [**].

OOW (Out of Warranty) post warranty unit price for repair is as stated in Exhibit A, "Post Warranty Services", under Pricing.

The parties agree to meet as required from time to time, but no more often than once each quarter, to discuss any changes in marketplace conditions and if warranted, agree to negotiate in good faith any price adjustments necessary to have the Products remain competitively priced.

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

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

2.3 Taxes and duties Prices do not include any sales, use or other similar taxes that do not apply to Buyer as a reseller of Products and/or Services. As may be necessary from time to time, the parties agree to negotiate in good faith to establish the terms and conditions for all legal, regulatory and administrative requirements, in addition to all associated duties and fees, associated with importation of Products into the country where the Product is received by Buyer, which terms will be incorporated into this Agreement when signed by both parties. Supplier's invoices shall state applicable taxes owed by the Buyer, if any, by tax jurisdiction and with a proper breakdown between taxable and non-taxable Products and Services. Supplier shall remit such tax payments to the appropriate jurisdiction. Supplier agrees to use its commercially reasonable efforts to properly calculate any applicable Taxes at the time of invoice. Supplier and Buyer agree to cooperate to minimize any applicable Taxes, including reasonable notice and cooperation in connection with any audit. Any incremental taxes shall be Supplier's responsibility. If Buyer provides certification of an exemption from Tax or reduced rate of Tax imposed by an applicable taxing authority, then Supplier shall not invoice for nor pay over any such Tax unless and until the applicable taxing authority assesses such Tax, at which time Supplier shall invoice and Buyer shall pay any such Tax that is legally owed.

Buyer shall withhold taxes, if required under the law to be withheld on payments made to Supplier hereunder and shall be required to remit to Supplier only the net proceeds thereof. Buyer shall remit the taxes withheld to the appropriate government authority and agrees to provide Supplier in a timely manner with properly executed documentation or other information or receipts or certificates evidencing Buyer's payment of any such withholding tax.

2.4 Point of Sale (POS) Reporting

Buyer will provide Point of Sale (POS) Information to Supplier by the 15th of each month for sales in the previous month. The POS report will include the following information:

Supplier — i.e. Brocade

Channel (Chnl) — i.e. Retail, Internal, GTS, etc.

Contract (Con) — i.e. IBM contract number

Machine Type (Mt) —

Feature Code (PnFc) —

IBM Part number (IBM Pn)

Brocade Part number (Brocade Pn)

Description

Serial Number

GEO

Country Name or State

Zip Code

Quantity

Ship Date (Assd)

MES = non-configured upgrade to existing order

Bp = IBM Business partner; this field indicates whether the unit(s) went to IBM reseller or direct end user

2.5 Delivery

2.5.1 Shipment All Products purchased under this Agreement will be shipped Ex-Works manufacturing site/merge centers (based on Incoterms 2000) to Buyer and/or designated End Users or Buyer Resellers, except where Buyer requires Product in a consignment hub where shipment will be ExWorks consignment hub location or other terms negotiated between the parties. As used in this Agreement, shipment and delivery are synonymous. For purposes of this Agreement, shipment and delivery occur upon delivery of Products by Supplier at Supplier's point of shipment to the common carrier specified by Buyer. Supplier will notify Buyer prior to shipping a partial quantity of a particular Order of Products. In the event that Supplier is unable to ship Products on the committed Ship Date as specified in Section 4.2, Supplier agrees, at Buyer's option, to use reasonable premium freight transportation to expedite delivery to Buyer.

2.5.2 Delivery Flexibility Buyer and Supplier will work together to ensure maximum order delivery flexibility. Supplier shall obtain Buyer's approval prior to making any early shipments. Early shipments are defined as any deliveries made [**] or more prior to Buyer's requested shipment date.

2.5.3 Title and Risk of Loss Title to Equipment (exclusive of title to Software), and risk of loss will pass from Supplier to Buyer upon delivery to Buyer's designated carrier, as specified in Buyer's Purchase Order. Title to Software Products remains with Supplier but risk of loss passes upon delivery to Buyer's designated carrier. At the time of Product delivery, Supplier shall provide Buyer with all documents of title necessary for Buyer (or its Affiliates) to take possession of such Products.

2.6 Country of Origin Supplier certifies the Products purchased hereunder shall have a country of origin of USA, Mexico or China, as provided under applicable United States law and regulations. If there are any changes to a Product's country of origin, Supplier will notify Buyer by providing a new country of origin certification signed by an authorized Supplier representative before shipping any Products other than those with the country of origin listed above. Additionally, for MES orders, Supplier will provide Buyer with country of origin details for each line item within every MES order. These details are to be made available to Buyer prior to shipment, so as to enable Buyer to update shipping systems and create shipping documentation with relevant and accurate country of origin information. Supplier acknowledges that Buyer will rely upon this certification in making representations to Buyer customers and to comply with various laws and regulations.

2.7 Warranty period Product warranty period is [**] from the date of shipment for Equipment and [**] for Software, except for Products identified as FRU's (Field Replacement Units) in Attachment A for which the [**] warranty period will commence on the earlier of: (i) [**] following the date of shipment, or (ii) upon installation at a customer site; provided Buyer notifies Supplier in writing of the date the FRU is installed, the serial number of the switch the FRU is installed into, and the serial number of the defective FRU. For warranty redemption, Buyer shall not return any Product, which Buyer determines to be defective, without a return material authorization number ("RMA") issued by Supplier.

2.8 Notice of Product Withdraw Supplier will provide Buyer with [**] written notice of its intent to withdraw any Product prior to the last date of manufacture of a Product ("End of Life" or "EOL"). Buyer shall provide to Supplier a non-binding forecast for Products and FRUs [**] from the receipt of Supplier's notice of End of Life. Buyer will provide a revised EOL FRU forecast in each year during the [**] EOL period, as requested by Supplier. Buyer shall provide to Supplier a non-cancelable last-time buy WA for forecasted Products no later than [**] prior to the End of Life date (last date of manufacture). Such Product purchases must be scheduled to ship no later than the End of Life date. For delivery requests outside of the Notice Period or order requests after Buyer's last-time buy purchase has been placed, Supplier will review on a case-by-case basis Buyer's request(s).

2.9 Epidemic Defect Rate The Epidemic Defect Rate is defined as [**] or more occurring with the same Product for the same defect over a [**] rolling average.

2.10 Use of Subcontractors Either party may use subcontractors to perform its obligations hereunder. Notwithstanding this subsection, either party's use of subcontractors will not relieve such party of the responsibility for the subcontractor's performance.

3.0 ORDER FULFILLMENT

3.1 Configure To Order (CTO) — Supplier agrees to manufacture, assemble, test, inspect, package and deliver Configure to Order (CTO) Products in accordance with Buyer's Product configuration details contained in Release WA's. Supplier will assemble the CTO Product in accordance with Specifications, test per Buyer approved process, and package for shipment designated by Buyer in support of customer order fulfillment. CTO products will be manufactured in accordance with IBM Quality standards specified in the Supplier Quality Requirements Document (SQRD), including Product Quality Addendums (PQA), if any, to the SQRD, and in accordance with

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

IBM's product structure / content defined in the formal EC released BOM structure. Initially, non-integrated chassis based Product may ship as a zero port base chassis and modules (e.g. port blades), but must be tendered in a single complete shipment. Supplier recognizes Buyer's need for a factory install configuration model and will work with Buyer to implement such a model no later than [**]

3.2 Fulfillment Logistics — General

Buyer will acquire and sell products on a direct ship basis via a single Supplier US source of supply during the initial phase of this Agreement. The parties will negotiate in good faith the location and timing of future changes to a single worldwide source of supply so as to limit disruption in supply to Buyer's customers and allow adequate time for required infrastructure changes to Buyer's fulfillment processes.

3.3 Forecast

Buyer shall provide Supplier with a non-binding twelve (12) month rolling monthly forecast no less often than monthly throughout the term of this Agreement for Products and Parts as mutually agreed between the parties. The first forecast shall be made available to Supplier no later than sixty (60) days prior to the date Buyer declares the Product as being generally available ("GA") to Buyer's customers. Forecasts are not Orders or a commitment to buy, and are used for planning purposes only, and Buyer has no obligation to purchase units of Products in accordance with its forecasts. Supplier understands and agrees that such forecasts are for Supplier's planning purposes only and they do not create any obligation or liability on the part of Buyer, either directly or indirectly.

The most recent forecast will supersede previous forecasts. Buyer will send WAs to Supplier or Supplier's subcontractor(s) on a daily basis as they are generated.

3.4 WA Issuance

Buyer is under no obligation to purchase any Products and/or Services, except as ordered in WAs and within the liability limits addressed elsewhere in the Agreement. Supplier or Supplier's subcontractor(s) will comply with Buyer's requested changes to delivery of Products specified in a WA as described in this SOW without additional charge to Buyer. The parties acknowledge that WAs may be placed on Supplier under this SOW by entities other than the Buyer, but only to the extent expressly authorized by Buyer (and agreed to by Supplier, such that Supplier's consent will not be unreasonably withheld) in writing, and Supplier agrees that for such purchases that (a) the Buyer authorized third party purchaser under this SOW, shall have extended to it all the obligations, protections, rights, and other benefits of the Agreement with respect to the applicable WA; (b) Buyer is a third party beneficiary and has the right to enforce the terms of this Agreement on such purchases on a joint and several basis; and (c) Buyer shall not be liable to either party with regard to such purchase transactions.

4.0 WA FLEXIBILITY

4.1 Allocation of Product Supply

Supplier or Supplier's subcontractor(s) shall deliver Products as specified in the WAs. Notwithstanding any other provisions of this Agreement if Supplier or Supplier's subcontractor(s) are unable to deliver Product as specified in the WAs, Supplier or Supplier's subcontractor(s) will give Buyer prompt written notice of such inability to deliver Product along with an estimate of the duration of the shortage. During such shortage period, the parties agree that Supplier or Supplier's subcontractor(s) will use an allocation method for fulfilling Buyer's WAs providing Buyer, at a minimum, a share of available capacity equivalent to the proportion of normal production capacity applied to fulfilling Buyer's WAs immediately before the occurrence of such shortage. If Supplier or Supplier's subcontractor(s) fail to correct such inability to supply Product or fail to develop a plan, acceptable to Buyer, to correct such inability to supply Product, Buyer will have the right to cancel such WA(s) or portions thereof by written notice. If Buyer cancels WAs under this Section 4.1 Buyer's only obligation is to pay for Products already delivered at the time of Buyer's cancellation notice.

4.2 Standard Order Lead Time, End of Quarter, and End of Month Lead Time

Supplier is responsible to plan, purchase and stock inventory levels in accordance with Buyer's forecast to support a time commitment of [**]beginning on the Effective Date. [**], Supplier will support a time commitment of [**] or

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

less between WA receipt and shipment. Prior to September 1, 2009, the Parties will establish a mitigation plan for high priority orders that require a ship time of less than [**].

Notwithstanding the foregoing, Supplier agrees to a standard WA turnaround time of [**] from the time of WA receipt to shipment during the last [**] of the quarter (March, June, September, December) or last [**] of a non-quarter-end month-end (January, February, April, May, July, August, October, and November), and will use commercially reasonable efforts to meet this requirement and to satisfy last day WAs inside of [**].

Supplier understands the need and agrees to work (and agrees to have Supplier's subcontractor(s) work) weekends and holidays as necessary when the weekend or holiday falls within the last [**] of Buyer's quarter (March, June, September, December) and within the last [**] of Buyer's non-quarter month-ends (January, February, April, May, July, August, October, and November). Buyer will notify Supplier at least [**] in advance of such weekends or holidays if Supplier is required to staff for such holidays and weekends.

4.3 Order Process

Supplier or Supplier's subcontractor(s) shall acknowledge and accept via WA Acknowledgement all of Buyer's WAs issued in accordance with the provisions of this SOW within [**] of receipt or as required by Buyer.

WA's will be communicated to the Supplier or Supplier's subcontractor(s) via Buyer's Hardcard, to be replaced by Buyer's FTP Interface program within a commercially reasonable timeframe. These messages will be transmitted in batches three (3) or more times per day. Each batch of WAs will be separated into three categories; "new WAs", "altered WAs", and "cancelled WAs". WA detail is passed in the form of CTO Product part numbers, with each Product part number to be invoiced against its respective blanket purchase order. The WA detail shall include the "due date" which indicates the date the Product, MES or FRU, as the case may be, must be ready for transport to Buyer or its designated agent ("**Due Date**").

4.4 Modified/Cancelled Order

Buyer may cancel or modify a WA [**] prior to Supplier or Supplier's subcontractor(s) tender of product to Buyer or Buyer's agent. Supplier or Supplier's subcontractor(s) will use commercially reasonable efforts to manage all requests. Buyer will work to minimize and/or mitigate such events within [**] of the scheduled ship date.

4.5 Upside Flexibility

Supplier will use commercially reasonable efforts to meet a [**] increase to the current forecast within [**] of Buyer's notification of such requirement.

4.6 Resolution of Customer Shipment Conflicts

Except in the case of evidence sufficient to convince Buyer, acting reasonably and in good faith, of a third party's fault or Buyer's disorder, Supplier assumes full responsibility for shipment of Product which Buyer's customers claim as missing from Supplier or Supplier's subcontractor(s) shipment; provided that, Supplier or Supplier's subcontractor(s) failed to include such Product Part in the shipment and the Part's absence is not a result of third party actions (e.g. Buyer's carrier or the Parts were not included in the original order) taken after Supplier or Supplier's subcontractor(s) delivered the Product package to Buyer's carrier. In such cases, Buyer will notify Supplier of the specific missing Products or Parts. Supplier will use commercially reasonable efforts to ship missing Products or Parts to designated Buyer location with [**] of notification from Buyer. Supplier is responsible for all freight and handling charges associated with missing Product or Parts if Supplier is responsible for missing Parts in the shipment. All shipments for missing Parts are to be shipped next day air or the most expeditious method possible.

4.7 Special Orders

Supplier agrees to use commercially reasonable efforts to fulfill Buyer's WA requirements placed outside Buyer's FTP Interface Program. There will be no additional charges for WA requirements placed outside Buyer's FTP Interface.

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

4.8 Shipped and Uninstalled (S&U) Process

Supplier shall provide Shipped & Uninstalled CTO Product and MES Product (“S&U”) support to Buyer as outlined in the process below for shipping, controlling, and reuse of S&U that have been returned to Buyer as S&U.

Shipped and Uninstalled (S&U):

- a) Will be returned to Buyer from Buyer’s business partners, locations and customers, then shipped by Buyer to Supplier or Supplier’s subcontractor(s)
- b) Buyer will confirm that S&U is un-used through an inspection process
- c) Buyer will request an RMA from Supplier for S&U.
- d) Per the RMA, Buyer will deliver the S&U to Supplier or Supplier’s subcontractor(s) and Supplier or Supplier’s subcontractor(s) will accept return of the S&U Product and credit Buyer [**] for the S&U upon Supplier’s acceptance of the returned S&U product.
- e) Buyer shall pay Supplier a flat fee per order for each S&U that is returned to Supplier or Supplier’s subcontractor(s) as an approved RMA, as outlined below. Each fee covers the complete order per the original WA invoice price.

CTO (Plant) Orders: [**]

MES Orders:

[**]

[**]

Notwithstanding the foregoing, Supplier or Supplier’s subcontractor(s) shall have no obligation to accept return of S&U if Supplier is no longer providing Buyer with CTO or MES Products for any reason, including without limitation, termination of the Base Agreement or SOW or Buyer’s decision to no longer have Supplier supply Buyer with CTO or MES Products and to move such function to a third party or back to Buyer. Supplier or Supplier’s subcontractor(s) shall, at Buyer’s expense and risk of loss, send any S&U Product received by Supplier or Supplier’s subcontractor(s) after such time to a location which shall be designated by Buyer in writing. The return of S&U’s in any given quarter is limited to [**] of the previous quarter’s spend.

In the event that a CTO Product represented as S&U by Buyer is believed by Supplier to be damaged or used, Supplier will contact Buyer or Buyer’s designated representative for instructions to return damaged or used product to Buyer. Product mutually agreed to be “used” cannot be refurbished and returned to Buyer as new. Otherwise, S&U may be considered new by Supplier and may be used to fulfill future Buyer new WAs after any necessary re-testing and /or re-configuration.

4.9 Rework Orders

For Product that does not comply with the requirements of Section 4.8, Supplier or Supplier’s subcontractor(s) shall rework unopened, unused returned Product per Buyer requirement in exchange for a reasonable rework fee. Supplier will not be required to credit Buyer for these returns outside the limitations of Section 4.8. Buyer will pay freight for such returns to Supplier and return of Product to Buyer.

4.10 HVEC Hub Replenishment

4.10.1 Pull Definitions

“Pull Products” means Products specified in the Pull Product Profile per agreement of the Parties.

“Pull Product Profile” or “Pull Profile” or “MIRS Profile” means the agreed to Pull Products and process including, but not limited to, Product Type, Part Number, Replenishment Lead-Time and Packaging Specifications.

“Pull Purchase Order” or “Pro forma Purchase Order” or “PPO” means a blanket PO used for invoicing, receiving and forecasting purposes and does not represent a firm offer by Buyer nor bind Buyer to any quantity or delivery date.

“Upside Flexibility” means a percentage of Pull Products specified in the Pull Profile in excess of the Planning Schedule Quantity.

“Buffer Inventory Replenishment Lead-time” means the time from Supplier’s receipt of Buyer’s Planning Schedule for Supplier to replenish the Buffer Inventory.

“Planning Schedule” means Buyer’s forecast of requirements for Pull Products.

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

“Pull Notification” or “Shipping Schedule” means Buyer’s only authorization (WA) for Supplier to deliver a specified quantity of Pull Products.

“Pull Notification Lead-Time” means the time from Supplier’s receipt of a Pull Notification to shipment of the Pull Products to Buyer’s location.

“Pull Program Inventory” means the minimum inventory for which Supplier is responsible to maintain, to satisfy Buyer’s quantities as specified in the Planning Schedule.

“Buffer Inventory” means the additional inventory that Supplier keeps as a safety inventory.

4.10.2 Planning

Buyer will issue a PPO to Supplier for all Pull Products. Buyer may issue a Planning Schedule at intervals as specified in the Pull Profile, the most recent Planning Schedule to supersede all previous Planning Schedules. The Planning Schedule provides a forecast of requirements for the Pull Products and establishes Upside Flexibility, if any, with the Supplier.

4.10.3 Pull Delivery

Supplier will deliver to Buyer on the delivery date the Pull Products specified in the Pull Notifications issued by Buyer, provided such Pull Notifications do not exceed the Planning Schedule Quantity. To the extent practicable, Supplier will comply with Pull Notifications for quantities of Pull Products in excess of the Planning Schedule Quantity, but at a minimum in accordance with the Upside Flexibility.

4.10.4 Pull Limitation of Liability

Buyer makes no representation or warranty and assumes no liability regarding the quantity of Pull Products that it will purchase.

4.10.5 End of Life Order

Pull Products for which Supplier has provided a written End of Life notice will be in accordance with Section 2.8, “Notice of Product Withdrawal”.

4.10.6 Inventory

Supplier will maintain a minimum of [**] of inventory in the hubs based on Buyer’s Forecast.

5.0 DOCUMENTATION

“Documentation” shall mean the OEM Manual and the Users Guide that Supplier generally makes available to its customers containing descriptive, operating, installation, engineering and maintenance information for Products, as such documents may be amended from time to time and any updates, modifications and enhancements made to them, during the term of this SOW.

Supplier shall provide Buyer with a master copy and one copy of all Documentation for each Product, in both hardcopy format and electronic format, suitable for dissemination by Buyer. Solely in conjunction with Buyer’s sale, installation, service and support of Products purchased under this Agreement, Supplier grants Buyer a nonexclusive, royalty-free right and license to copy, use, modify, translate and otherwise prepare derivative works of the Documentation and distribute the Documentation and derivative works to its customers, provided that Buyer keep Supplier’s copyright and other proprietary notices as may appear on such Documentation and refrain from doing anything that would jeopardize Supplier’s proprietary and other rights in the Documentation. Should Buyer require Supplier to make modifications to said Documentation, the cost will be at Buyer’s expense.

6.0 ENGINEERING CHANGES:

Engineering Changes shall not be applied to any Product under this Agreement unless implementation is conducted in accordance with the following engineering process:

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

Supplier Changes: Supplier will notify Buyer (through the Technical Coordinator) of any engineering change that materially affects form, fit or function of the Product or any changes in sourcing or critical component suppliers. Notification will be in the form of a monthly 30, 60, 90 day report and will supply Buyer with a written description of the anticipated effect the engineering change will have on the Product, including price (savings), performance, reliability, serviceability, manufacturability and any cost impact to Buyer as a result of the implementation of the engineering change. For material changes that affect form, fit or function, Buyer has the right to approve or disapprove of such engineering changes, which approval shall not be unreasonably withheld. Buyer may elect to evaluate and test the prototype, parts and/or designs specified as part of the proposed change and Supplier shall provide such parts to Buyer at no charge for such evaluation and testing. Buyer (through the Technical Coordinator) shall approve or disapprove Supplier proposed changes within thirty (30) days of receipt of a written request, except for changes required to satisfy governmental standards or safety for which Buyer shall respond within five (5) business days, unless extended by mutual consent. Failure to respond within the applicable timeframe shall be deemed to be Buyer's acceptance of such proposed change. If such change affects price, the Buyer Business Coordinator must also provide approval. If Buyer approves the engineering change, the Product Specification and unit pricing will be amended as required. Buyer will not unreasonably refuse to approve Supplier's engineering changes into the Product.

Buyer Changes: Buyer may request in writing (through the Technical Coordinator) that Supplier incorporate an engineering change into the Product. Such request will include a description of the proposed change sufficient to permit Supplier to evaluate its feasibility. Within thirty (30) days of such request (or extended by mutual consent), Supplier will advise Buyer of the conditions under which it would make the engineering change. Supplier's evaluation will be in writing and will state the increase or decrease price adjustment (if any) and the effect on the performance, reliability, safety, appearance, dimensions, tolerances, manufacturability and serviceability of the Product. Buyer's Technical Coordinator shall approve or disapprove the engineering change based on Supplier's written evaluation. If such change affects price, the Buyer's Business Coordinator must provide approval prior to implementation. If Buyer approves the engineering change, the Product Specification and unit pricing will be amended as required. Supplier will not unreasonably refuse to incorporate Buyer's engineering changes into the Product.

In the event a change/improvement initiated by either party shall result in a cost decrease, it is understood and agreed the parties shall mutually agree to a price decrease effective immediately upon complete implementation of such change/improvement.

7.0 DISASTER RECOVERY PLAN

Supplier shall maintain throughout the term of this SOW a formal disaster recovery plan which covers Supplier's ability to continue Product shipment and maintain contracted commitments in the event of a disaster.

8.0 MANUFACTURING RIGHTS:

8.1 Cessation of Product Business:

If, during the term of this Agreement:

- A) Supplier (or its contracted manufacturer) ceases engineering, manufacturing or assembling services (except as expressly provided in Section 2.8 of this Agreement) contracted for hereunder; or
- B) An assignment is made of Supplier's business for the benefit of creditors; or
- C) A petition in bankruptcy is filed by or against Supplier; or
- D) A receiver or trustee in bankruptcy or a similar officer is appointed to take charge of all or part of Supplier's property under bankruptcy law or corporate reorganization law; or
- E) Supplier is adjudicated a bankrupt; or
- F) Supplier shall be dissolved or liquidated or have a petition for dissolution or liquidation filed with respect to it

(Each such event shall hereafter be referred to as a "Trigger Event").

Buyer shall notify Supplier in writing if Buyer is aware or becomes aware of the occurrence of such a Trigger Event, or Supplier shall notify Buyer in writing if Supplier is aware or becomes aware of the occurrence of such a Trigger Event, and Supplier shall have thirty (30) days after the date of such written notification or from the date of the occurrence of such a Trigger Event in which to remedy such condition or conditions, or such longer period as is mutually agreed to by the parties in writing (hereafter referred to as the "Cure Period").

8.2 Election of Remedies by Buyer:

If Supplier is unable to remedy the Trigger Event during the Cure Period, within [**] after the end of the Cure Period, Buyer shall select one of the following options to ensure an adequate supply of Product: (i) exercise the right to manufacture (or have manufactured) Products pursuant to Sections 8.3 through 8.6 inclusive, or (ii) purchase Product from third parties. If Buyer fails to provide Supplier with written notice of such election within such [**] period, the parties agree that Buyer will be deemed to have selected option (ii) of this Section 8.2.

8.3 Know-How Transfer:

If Buyer selects the right to manufacture (or have manufactured) pursuant to option (i) in Section 8.2 above, Supplier will promptly deliver to Buyer the following "Manufacturing Assistance Items": those tools, fixtures, microcode and equipment (over which Supplier has control) that were designed and built for the manufacture and test of Products, if available for transfer; copies of engineering drawings of parts, subassemblies and applicable packaging; copies of inspection, assembly and test instructions; copies of test cases; copies of tooling prints and detailed part production process documentation; and a list of Supplier's suppliers and their addresses and Supplier's consent, where required, to the sale of such supplies to Buyer. These Manufacturing Assistance Items are to be provided by Supplier in order to enable Buyer to make or have made Products and/or Spare Parts. In addition, Supplier shall, upon Buyer's request and payment by Buyer of Supplier's then-current standard rates therefore, provide such technical assistance as may be reasonably requested to enable Buyer to make or have a third party make Products and/or Spare Parts, subject to the reasonable availability of Supplier personnel. Nothing contained herein shall obligate Supplier to disclose to Buyer any confidential information of a third party, the disclosure of which requires permission of such third party, provided that Supplier agrees to use commercially reasonable efforts to obtain such permission if such confidential information is necessary for Buyer to make or have made Products and/or Spare Parts. All Manufacturing Assistance Items and non-public information of any kind that is required to produce the Products and Spare Parts, whether in written or oral form ("Supplier Confidential Information") shall be deemed to be confidential to Supplier and shall not be disclosed to any employee or agent without a need to know such information to manufacture the Products and Spare Parts as authorized in Section 8.4 below, both during the term of this SOW and thereafter. Buyer shall ensure that it has obtained or will obtain from its employees and agents, and the employees and agents of its Subsidiaries and authorized third parties, who will receive Supplier Confidential Information a written agreement to hold such Supplier Confidential Information in confidence and to use the same care and discretion to avoid disclosure of such information as Buyer uses with its own similar information which it does not wish to disclose, but in no event less than commercially reasonable measures to protect such information. All such Supplier Confidential Information shall be maintained in a locked facility accessible only by authorized personnel.

8.4 Right to Manufacture:

If Buyer selects the right to manufacture (or have manufactured) pursuant to option (i) in Section 8.2 above, Supplier will grant to Buyer a non-exclusive, non-assignable, royalty-free, worldwide license under all Supplier's and Supplier's Subsidiaries' patents, copyrights, mask work rights, and trade secrets and all related information, such license being sufficient to allow Buyer to use the Manufacturing Assistance Items and other information provided by Supplier pursuant to Subsection 8.3 above (the "Manufacturing Know-How") and to make, have made, use lease and/or sell Products, successor Products and/or Spare Parts, together with the right of Buyer to sublicense to its Subsidiaries or a third party to make, have made, use, lease and/or sell Products, successor Products and/or Spare Parts, subject to the limitation set forth in Section 8.5 below ("Limited Manufacturing License"). Unless earlier terminated as set forth in Section 8.5 below, except with respect to existing Products or Spare Parts that are being manufactured on or after such time and except as specified in the next sentence, Supplier acknowledges and agrees that the Limited Manufacturing License granted under this Section 8.4 shall immediately terminate upon termination of this SOW. Notwithstanding the foregoing, as to successor Products, Supplier agrees that provided Buyer has used commercially reasonable efforts to discontinue the use of Supplier's Confidential Information after

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

the termination of the Limited Manufacturing License, Supplier hereby grants to Buyer an immunity from suit with respect to the usage of any Supplier Confidential Information that has been mentally retained in the unaided memory of the employees and agents of Buyer, its subsidiaries and any third parties authorized by Buyer and its Subsidiaries.

8.5 Termination of Manufacturing Rights:

If Buyer selects the right to manufacture (or have manufactured) pursuant to option (i) in Section 8.2 above, and, during the term of Limited Manufacturing License, begins to make substantial volume purchases of any similar Ethernet Products from any third party, the parties agree that the Limited Manufacturing License granted to Buyer under Section 8.4 shall terminate effective [**] after the commencement of any such substantial volume purchases. Upon any termination of the Limited Manufacturing License, Buyer shall use commercially reasonable efforts to return to Supplier or destroy all Supplier Confidential Information to Supplier, retaining no copies in any tangible form or medium, and provide to Supplier a certificate from a Buyer executive attesting to such fact.

8.6 Cancellation of Purchase Order(s) (WAs) under Section 8, Manufacturing Rights:

Upon the date of transfer of "Manufacturing Assistance Items" under Section 8.3 above, any WAs of Buyer for Products issued by Buyer on or after the date of any of the Trigger Events, may be canceled by Buyer by a written notice to Supplier, and Buyer will have no further obligations thereunder except Buyer's obligations in connection with acceptable Products already delivered prior to such cancellation, including but not limited to, payment obligations for such delivered Products, unless otherwise agreed to by the parties.

9.0 SUPPLIER SERVICES

9.1 Professional Services: Unless otherwise specified by a customer, for Ethernet engagements involving the sale of Supplier Ethernet Products that require relevant services including installation, design, implementation, and consulting, including leased-based, onsite engineers (collectively, "Professional Services"), and where Buyer's Services organizations do not have the capability to source the resource for these services from within Buyer's organization or its established vendors, Supplier shall be the preferred subcontractor to Buyer. Any Professional Services purchased by Buyer will be set forth in a separate statement of work for such engagement and shall be provided in accordance with the terms and conditions of the existing Brocade/IBM International Master Agreement for Subcontracting # [**].

9.2 Product Repair— Field Failures: Supplier shall use commercially reasonable efforts to comply with the requirements set forth in the Certified Service Part (CSP) document on file with Buyer and Supplier, CSP Specification PN: 22R0129; EC: H83590A, as updated, outlining the Buyer requirements of Supplier to bring a field returned, used Product to a level that qualifies the Product as a CSP. Supplier agrees to repair and/or upgrade field returned, used Products in accordance with this CSP document.

9.3 Post Warranty Services

9.3.1 Definitions:

"**Backline Support**" refers to the escalation point for Frontline Support, for issues that cannot reasonably be resolved by Frontline Support, such as complicated installation or configuration issues, compatibility issues, complicated problem isolation and troubleshooting, and escalation of verified bugs to engineering. Backline Support is provided through telephone and e-mail support during normal Supplier business hours and after-hours support for Severity 1 problems. For more details, please refer to Supplier's Service Plan Policies Document http://www.brocade.com/support/service_policies.jsp

"**End of Life**" or "**EOL**" means the date and process by which Supplier discontinues the manufacture of a product as set forth in 2.8.

"**End of Service**" or "**EOS**" means date when Buyer officially discontinues Customer service and support for a Product. EOS dates are only addressed for the purposes of defining the date through which Supplier will make

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

Repair Services available for Products, and do not affect Supplier's obligations with respect to FRU or other Product availability."

"Frontline Support" includes the initial direct contact with the end-user, call logging, entitlement verification, problem definition and isolation, determination of whether a solution is contained in the end user documentation, review of symptoms in the Supplier Knowledge Base for known resolutions, problem escalation to Supplier, and closing the case with the end user after problem resolution.

"Field Replaceable Unit" or "FRU" means a Product, Product component, Product subassembly, Product documentation, Product code, or other Product part used to service a Customer system as described in the Product written specifications.

"Maintenance" — Maintenance Release Version is always a number. It is used to indicate a scheduled (date driven) release of defect fixes and carefully selected RFEs (Requests for Enhancements).

"Major Release" — Major Release is always indicated by a number. (Example: 3.6.00c — The first two numbers (3.6) indicate a major release.) It is used for introducing major features and/or major hardware architectural changes or introductions.

"Minor Release" — Minor Release is always indicated by a number. (Example: 3.6.00c — The second set of numbers (.00) to the right of the decimal point indicate a minor release.) It is used for introducing a carefully selected set of minor features, within the major release train, that have minor impact on the code, and/or sometimes for introducing support for a minor hardware enhancement — e.g., a new line card for a chassis.

"Patch Release" — Patch release is always indicated by a letter. It is used only to identify fixes

"Post Warranty Products" means Products for which the original warranty period has expired.

"Product_version_code (string designator)" — the product code name that will be used. To avoid potential issues, all products will be named with lowercase.

"Software Maintenance" refers to the provision to Buyer by Supplier of certain software updates at no additional charge (beyond any charges for Support and Maintenance" during the Software Maintenance period). Maintenance and Patch releases are generally included with Software Maintenance. Platform and Feature releases generally are not included with Software Maintenance.

"Support and Maintenance" or "Software Maintenance and Support" mean Backline Support and Software Maintenance.

"Turn Around Time" or "TAT" means the elapsed time from Products arriving at Supplier to shipment date back to Buyer.

9.3.2 Availability: Supplier will maintain the capability to supply spare parts of Products ("Spare Parts") for a period of [**] of such Products as specified herein. Supplier may assign its rights to warranty replacement Spare Parts or EOL Spare Parts to a Buyer approved third party. Buyer will have no obligation to have any Products repaired by Supplier.

9.3.3 Pricing: Post Warranty repair (OOW) pricing is set forth in Attachment A, which shall not be greater than [**] of the then current FRU price. In the event Supplier determines, in good faith, that a Product returned for repair is unrepairable, Buyer may purchase a replacement FRU at the then-current FRU price. All other FRUs that are not listed in Attachment A, "Products and Pricing", have been determined by Supplier to be non-repairable. Any change in this unit price shall be as mutually agreed upon by the Parties.

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

9.3.4 Planning: Buyer may periodically issue non-binding forecasts for post warranty repair service. The Supplier will implement an auditable process for Products sent to the Supplier for repair and Supplier will inform Buyer of receipt of Products from Buyer. Supplier will use commercially reasonable efforts to achieve a maximum Repair Yield and will inform Buyer if it is unable to achieve the Yield.

9.3.5 Packaging and Delivery: The Products will be individually packaged and labeled according to Buyer specification GA-21-9261-11, unless otherwise agreed to. Packaging may be reused only with Buyer's written authorization. The terms of delivery for Products will be as stated under Section 2.5 (Delivery) and Supplier will notify Buyer of discrepancies between the shipping documents and received Products. The TAT for Serviced Products will not be more than [**] after receipt of said Products, unless specified otherwise. Supplier will use commercially reasonable efforts to reduce the TAT days and make adjustment to Buyer accordingly.

9.3.6 Materials: All Products and associated spares, including scrap materials, will be returned to the owning affiliate as specified in the relevant WA. Buyer may request a quarterly inventory report of AFR Products and associated spares or may designate a third party to conduct such activity. All consigned materials supplied on a consigned basis will remain property of Buyer and Supplier will provide a quarterly inventory report of such materials. Supplier will use all parts supplied by Buyer solely for the performance of this Agreement unless otherwise agreed.

9.3.7 Repair Warranty: For a period of [**] or the remainder of the original warranty period for the Product, whichever is longer, from the date a repaired Product is Delivered to Buyer, Supplier will repair or replace Products, at Supplier's discretion, without charge if the Product fails to conform to the specifications specified in Supplier's web site. The warranty period for repaired Post Warranty Products will be determined based on the out of warranty repair price listed in Attachment A, "Products and Pricing".

9.3.8 Product Support: Supplier will continue to provide technical support as defined in Section 9.4, for [**] after the termination of SOW 8 or [**] after the last ship date as indicated on an End of Life notice provided by Supplier pursuant to Section 2.8, whichever is earlier.

9.4 Technical Support — Technical Support services include Level 1, Level 2, Level 3 and Level 4 responsibilities defined below, for Product, documentation and Maintenance and Minor Releases arising out of technical support responsibilities, and all such releases created or made available by Supplier. These Services are provided at no incremental charge to Buyer beyond the initial transfer price of the Product. [**]

9.4.1. Level 1

Buyer will perform the following Level 1 support responsibilities:

- Create the Problem Management Record ("PMR");
- Obtain from Customer a description of the Problem);
- Search for any known resolution(s) relevant to the Problem;
- If a resolution to the Problem is known, specify such resolution to Customer;
- Pass the PMR to Level 2, and update the PMR documenting Level 1 actions.

9.4.2 Level 2

Supplier will assist Buyer as required by Buyer for non-Severity 1 and Severity 2 issues, in performing the following Level 2 support responsibilities:

- Receive the PMR from Level 1;
- Analyze Problem symptoms and gather additional data from Customer as required;
- Recreate Problem on the Developer Test System;
- Determine if Problem is due to improper installation of the Product by Customer;
- Determine if Problem is due to operationally related hardware or software at the Customer's location;
- Attempt a bypass or circumvention for high impact Problems (i.e., Severity 1 and 2);
- Update the PMR documenting Level 2 actions.

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

Buyer will [**]. This [**] will be [**] of the [**]. After [**] will [**]. The objective is [**] the [**] and [**]. Buyer and Supplier will [**]. Buyer and Supplier will [**], as required, [**].

9.4.3 Level 3

Supplier will provide Level 3 support during normal Business Hours, and will make commercially reasonable efforts to have Level 3 support on call twenty-four (24) hours per day, seven (7) days per week, 365 days per year;

- Receive the PMR number and supporting documentation (including serial number and model type) and materials from Level 2;
- Analyze Problem symptoms and diagnose Problem;
- Notify Level 2 if additional information, materials or documentation are required;
- Attempt to recreate Problem on the Developer Test System;
- Assist Level 2 in developing a bypass or circumvention for high impact Problem (i.e., Severity 1 and 2);
- Deliver corrections to the Product and/or Product code to Buyer within the applicable Correction Times to fix Problems identified by Buyer;
- Confirm resolution of Problem with Customer, and document Level 3 actions through regular communication; and
- Answer Backline Support questions from Buyer and/or Customer concerning the operation and use of Products.

9.4.4 Level 4

Supplier will provide Level 4 support to Buyer as the highest level of escalation support available at no additional charge for Problems that result from Supplier root cause. Level 4 support shall be available as required according to the severity of the Problem, and at Buyer's and Supplier's agreed upon discretion. If mutually agreed, Supplier will provide off-shift Level 4 support if Buyer indicates such support is required.

The Level 4 Support escalation process is required for complex Problems and will provide engineering development assistance from Supplier. Level 4 Support includes but is not limited to the Level 3 activities defined in Section 9.4.3 and the following reengineering activities:

- Analyzing and reproducing, as necessary, the reported defect to understand root cause;
- Developing a fix or workaround for the reported defect;
- Setting up the test bed of appropriate Supplier hardware and software versions to test the defect fix;
- Testing that the defect fix works with the other current Supplier products/release levels that may be running at the affected customer site(s); and
- Continually retesting that the defect fix still works with each new version of other Supplier products/release levels that may be getting introduced at the affected customer site(s).

Supplier root cause is defined as Problems resulting from defects in materials and workmanship and/or errors in conforming to Product Specifications according to Section 1.1 "Specifications" relating solely to hardware, firmware, and software at time of Product shipment or subsequent releases as mutually agreed to by both parties according to Section 6.0 "Engineering Changes". Root cause will be demonstrated by test and problem determination analysis by Supplier.

If Buyer requires Level 4 Support for Problems that are demonstrated by Supplier through root cause analysis not to result from Supplier root cause, Supplier will provide technical support to Buyer at Supplier's then-current Time & Materials rates, provided that no other Supplier customer receives more favorable rates for similar services, and as mutually agreed to by the parties.

Supplier shall notify Buyer of a planned EOL announcement for any Supplier Product or Software [**] before the published date or the date on which the Backline Support of Software is planned to be transitioned to a third party company. Any consent by Buyer shall not relieve Supplier of any obligations under this Agreement, including breach thereof by any such third party.

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

9.4.5 Other Technical Support Responsibilities

Supplier will provide to Buyer the name and phone numbers of Supplier Personnel to contact for all technical support matters related to the Product. Supplier will provide training listed in Section 9.4.6 to Buyer to enable Buyer to perform technical support functions for the Product and will keep Buyer informed of any known Problems and their associated solutions. Supplier shall contact Buyer directly in the event Buyer Customers contact Supplier for Product support services. No other support shall be provided unless directed by Buyer for these Products.

9.4.6 Product Training

Supplier will provide product training, and at the scope and level of effort described below. This training will be provided on either Supplier’s or Buyer’s premises and will include:

- In-depth Training for each product launch
 - [**] and
 - Field sales and technical sales training for product launch
 - [**].
 - On-going and future training opportunities for each of the products covered in this SOW.
 - [**];
 - [**];
 - [**];
 - [**]
 - [**].

9.4.7 Severity

Upon Buyer sending an incident report to Supplier, Buyer shall assign the incident report a severity level in accordance with the severity level assigned to each defect or problem (“collectively, “Problem”) in accordance with the table below. Due to varying complexity of problems, the target defect resolution times listed in this section are goals, and not firm deadlines.

Defect Severity Level	Definition	Service Objective Response Time	Target Defect Resolution Time
Severity 1	Product or system is not operational and/or all data inaccessible or lost. Data flow may be stopped or errors that significantly impact Customer’s operation. These issues will be regarded as having a critical impact to the end user’s data. Supplier support personnel will require continuous availability of Buyer contact until resolution.	Supplier will provide Buyer with an immediate Response to its initial request after receiving notification of Problem from Buyer, such Response time not to exceed [**] hours. For the purpose of this Agreement a “Response” is defined as a telephone call or e-mail with appropriate and required information from Supplier acknowledging that an incident report has been received and that an appropriate technical resource has been assigned and is available to work with IBM <i>product field engineering</i> support.	Supplier will ensure resources will be applied continuously, around the clock, with a goal of providing a solution or acceptable work-around within [**] hrs. Supplier will provide a formal Problem summary and resolution plan within [**] days from the date of Problem intake. Critical Situations may require the Customer, Supplier, and Buyer to be at their respective work locations or available around the clock.
Severity 2	Product or system is operational, but has severely restricted functionality and/or degradation that end-user regards as impacting its business.	Supplier will provide Buyer with a Response to its initial request within [**] hours, and during normal Business Hours.	Supplier resources will be applied continuously, during Supplier’s normal Business Hours, until a solution or work-around is developed. Supplier will provide a work-around, fix or patch or resolve the defect in less than [**] from the date of Problem intake. If Supplier provides a work-around, fix or patch, the severity level of the Problem will be downgraded.

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

Defect Severity Level	Definition	Service Objective Response Time	Target Defect Resolution Time
Severity 3	Product or system is operational with functional limitations or restrictions that end user does not regard as critical to its overall operations.	Supplier will provide Buyer with a Response to its initial request within [**] hours, and during normal Business Hours.	Supplier provides a work-around, fix, or patch or resolve the defect in less than [**] from the date of Problem intake. Supplier resources will be applied on an as available basis. If Supplier provides a work-around, fix or patch the severity level of the Problem may be downgraded.
Severity 4	Low or no impact Problems or questions associated with Product usage, implementation, performance or any other inquiries.	Supplier will provide Buyer with a Response to its initial request, within [**], and during normal Business Hours.	Supplier will provide a work-around, fix, or patch or resolve the defect in less than [**] from the date of Problem intake. Supplier resources will be applied on an as available basis. If Supplier provides a work-around, fix or patch the severity level of the Problem may be downgraded.

Buyer will use commercially reasonable efforts to resolve Severity Level 3 and 4 problems prior to contacting Supplier for assistance.

Either Buyer or Supplier may require that a certain Problem be managed as a higher Severity Level than as classified. If either party requires such higher Severity Level, then the Problem will be managed as that higher Severity Level.

In the event Buyer and Supplier disagree on the severity level of a given defect, Buyer and Supplier agree to promptly review defect reports related to potential Buyer-Customer impact. Buyer agrees to provide data on failures, as available, with specific Buyer platforms, Customer captures, re-configurations with test data and other information that may be needed to classify the defect accurately.

9.4.8 Software Maintenance and Support Program

All Products purchased under this SOW shall be eligible for coverage under Seller’s annual Software Maintenance and Support Program. Under the terms of this support program, Supplier shall provide for a fee, Software Maintenance and Support for Products. [**]. After the expiration of the Initial Coverage Period, subsequent Software Maintenance and Support shall be referenced as “Post-contract Customer Support” “PCS.” Supplier will make PCS available for [**]. Software Maintenance and Support (including PCS) is defined as the inclusion of product/software upgrades/enhancements that significantly improve the marketability of the product, product interoperability updates together with the Technical Support defined in section 9.4. Buyer will make available to its customers the software upgrade feature options included in Attachment A. Customers that purchase this feature shall be entitled to such software upgrades. [**].

Buyer may order for its customers PCS at the prices listed on Attachment A. Customers will have the option to purchase incremental PCS at either the time of initial purchase of the Product, or as a renewal agreement after the Initial Period.

PCS will be sold to Buyer’s customer base as a part option or Feature Code. A Supplier part number will be linked to each of the Buyer’s feature codes.

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

9.5 Sales Training: Supplier agrees to provide Buyer all current marketing and sales training materials for the Products. Supplier agrees to actively assist in the marketing and sales training of a reasonable number of Buyer personnel, such quantity to be mutually agreed to.

Technical training requested by Buyer will be made available by Supplier at its San Jose facility at Supplier's standard rates, as accepted and agreed to by Buyer. However, in the case of new Products added to this SOW #8, Supplier shall provide mutually agreed upon presales training to Buyer to support new Products at a mutually agreed upon time, date and location. Each party shall be responsible for all costs associated with the attendance of such training by such party's personnel. Buyer acknowledges that the materials distributed by the Supplier during the technical training are protected by copyright, and that the Buyer shall have no rights to reproduce such materials without the prior written consent of Supplier.

9.6 Cessation of Post-Warranty Service:

Should Supplier fail to provide post-warranty services as specified in Section 9.3, in paragraphs titled Availability and Product Support or, during the term of this SOW, technical support as specified in Section 9.4 with respect to a Product that has been withdrawn as specified in this SOW, then Buyer shall notify Supplier if Buyer becomes aware of such occurrence and Supplier shall have [**] after the date of Buyer's notification in which to remedy such condition or conditions, or such longer period mutually agreed by the parties in writing. If an applicable failure by Supplier to provide services to Buyer is not remedied as specified in the preceding sentence, then Buyer may, upon written notice to Supplier, obtain from Supplier Manufacturing Assistance Items required to make or have made Spare Parts and to provide warranty and technical support services solely: (i) for the affected Product, (ii) under the terms of the Limited Manufacturing License set forth above in Section 8.4, and (iii) for the remainder of the five (5) year period specified in Section 9.3.2, "Availability and Product Support". Notwithstanding the foregoing, the parties agree that Supplier shall only be required to deliver to Buyer Supplier Confidential Information and Manufacturing Assistance Items which are strictly required for the manufacture of the Spare Parts and for Buyer's provision of warranty and technical support services for the affected Product, and that upon the termination of the Limited Manufacturing License with respect to such items, Buyer shall use commercially reasonable efforts to return to Supplier or destroy all Supplier Confidential Information, retaining no copies in any tangible form or medium, and provide to Supplier a certificate from a Buyer executive attesting to such fact.

9.7 Field Replaceable Units (FRU) Emergency

9.7.1 Definition

"Code A-Alert Emergency Order" or "EO" means WA placed by Buyer with a leadtime from Supplier's receipt of the WA to the shipping date not to exceed [**].

9.7.2 Code A-Alert Order Placement

Supplier will provide Buyer with a [**] contact for Code A-Alert orders. This will be an out of process band contact that Supplier will establish in addition to the formal order placed on Supplier by Buyer. Buyer will notify Supplier via email/telephone upon Emergency Order (EO) placement. Supplier will respond to all EO via email, EDI (or other electronic commerce approach) and/or telephone, such EO to be confirmed by Buyer with a written WA mailed or electronically transmitted to Supplier within two (2) calendar days of EO placement. Supplier will acknowledge EO back to Buyer via email or telephone within the specified order confirmation time periods stated below.

9.7.3 Code A-Alert Emergency Order Work Authorizations

WAs will include Buyer's Purchase Order number, Buyer's part number, part number description, quantity, unit Price, order type (short lead time, in the event a short lead time order is placed, are orders with requested Delivery Dates in less than the agreed to Lead Time), Delivery Date and ship to address.

9.7.4 Code A-Alert Emergency Order Shipments

Supplier will drive commercially reasonable efforts to secure parts associated with Code A Alert orders on an expedited basis. These efforts will include response and capabilities according to currently agreed to provisions [**]. These efforts will include utilizing current Brocade supplier contacts to drive earliest possible product

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

shipment on a case by case basis within the bounds of what can be driven by Brocade’s supply chain on an expedited basis.

9.7.5 Code A-Alert Emergency Order Delivery and Cancellation

Supplier will deliver EOs directly to the address specified in the WA and in accordance with this SOW. Code A-Alert Emergency Order(s) are non-cancelable; provided, however, Buyer may contact Supplier anytime prior to time of shipment to make changes to the specified receiving location.

10.0 GOVERNANCE PROCESS/COMMUNICATIONS COORDINATORS

10.1 Governance Process

The Executive Sponsors and Business Coordinators shall meet on a quarterly basis to discuss the objectives of the relationship, establish and track funding levels, and measure performance against commitments defined in Attachment C, Initial Business Terms for Ethernet Networking Products. In the event either Party requests escalation of an issue covered by this Agreement, the parties will work first with the Business Coordinators listed below. If the issue cannot be resolved within 30 days, then the Business Coordinators will escalate such issue to the Executive Sponsors listed below for discussion and resolution.

10.2 Communications Coordinators:

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

EXECUTIVE SPONSORS

FOR SUPPLIER		FOR BUYER	
[**]	[**]	[**]	[**]
[**]	[**]	[**]	[**]
	[**]		[**]
	[**]		[**]
[**]	[**]	[**]	[**]
[**]	[**]	[**]	[**]

BUSINESS COORDINATORS

FOR SUPPLIER		FOR BUYER	
[**]	[**]	[**]	[**]
Address	[**]	Address	[**]
	[**]		[**]
[**]	[**]	[**]	[**]
[**]	[**]	[**]	[**]

TECHNICAL COORDINATORS

FOR SUPPLIER		FOR BUYER	
[**]	[**]	[**]	[**]
Address	[**]	Address	[**]
	[**]		[**]
[**]	[**]	[**]	[**]
[**]	[**]	[**]	[**]

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

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

LEGAL NOTICES

FOR SUPPLIER		FOR BUYER	
[**]	[**]	[**]	[**]
	[**]		
Address	[**]	Address	[**]
	[**]		[**]
			[**]
[**]	[**]	[**]	[**]
[**]	[**]	[**]	[**]

11.0 Hazardous Substance and Environmental Law Requirements

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

11.1 Based on evaluation of the Specifications, Supplier takes except to the following provisions.

11.1.1 Specification 46G3772

- Sec 2.1: Supplier will comply with the Maximum Concentration Value (MCV) limits specified per the RoHS directive;
- Sections 2.3.1 Supplier will report the approximate weight in grams for the substance present in the part supplied to Buyer to be reported to Buyer;
- Section 2.3.2 remove the requirement to report the approximate weight in grams for the substance present in the part supplied to Buyer to be reported to Buyer; and
- Section 2.4.2 Plastic Parts Marking in accordance with ISO 11469-05. Supplier does not use any of the listed “Commonly Used Resins.

11.1.2 Specification 53P6233

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

ATTACHMENT A
Products and Pricing

Excel File is attached hereto for Products and Pricing.

Pricing Files Removed for Confidentiality

ATTACHMENT B
SUPPLIER QUALITY ATTACHMENT

This Supplier Quality Attachment (“SQA”) adopts and incorporates by reference the terms and conditions of SOW # 8 (“SOW”) and Goods Agreement #ROC-P-68 (“Agreement”) between Buyer and Supplier.

1.0 INCORPORATION OF SQA DOCUMENTS

The SQA consists of this document, and applicable product specification documents and specifications.

2.0 QUALITY REQUIREMENTS

The requirements of this SQA shall constitute Supplier’s quality program which must be implemented and maintained during the term of the SOW.

Supplier will set forth the yearly quality and reliability performance commitments for the current year and through the remainder of the initial term of the SOW in a product quality report (“PQR”). The PQR shall include the mutually agreed product monitoring plan to be used to validate the effectiveness of process control limits and the Product meets the quality and reliability defined in such PQR. It is Buyer’s expectation that Supplier will use e-business platforms (Web based applications) for ongoing real time quality management, including but not limited to information associated with Supplier Quality Management Systems (“SQMS”) and Product Change Notification (“PCN”), etc. or as specified in the PQR.

3.0 ISO REQUIREMENTS

For ISO compliance, Supplier’s contracted manufacturer is ISO 9001* compliant (“Compliant”).

* Note: ISO 9001 & 9004 have been developed as a consistent pair of quality management system standards. ISO 9001 is considered the standard by which the Supplier is expected to be compliant; it is understood ISO 9004 provides a wider range of guidelines of objectives than ISO 9001, particularly for the continuous improvement of an organization’s overall performance and efficiency. ISO 9004 is recommended as a guide to assist those suppliers who wish to move beyond the basic requirements of ISO 9001.

4.0 AUDITS

On a periodic basis, upon reasonable prior written notice, the Buyer or Buyer’s quality representative shall conduct audits/visits at the Supplier’s and Supplier’s contract manufacturer’s manufacturing locations. The Supplier shall, at Buyer’s request, permit access to the auditors to manufacturing operations and/or inspection of Products for Buyer, including access to the contract manufacturer’s facilities. Any such audit is subject to the contract manufacturer’s security requirements and shall not allow access to contract manufacturer’s proprietary or confidential information. Periodic audits shall include process control, quality inspection test data, internal audit reports, and other information solely related to Products to verify compliance to the terms of this SQA. Under normal circumstances, Supplier shall be given at least a two weeks advance written notice by Buyer’s representatives of their intent to visit. Buyer’s inspection of Product at the Supplier or contract manufacturer shall not relieve the Supplier’s responsibility to furnish Product compliant with the applicable written specifications as set forth in the SOW. Any Confidential Information exchanged in connection with the audit shall be handled in accordance with Section 14.6 of the Goods Agreement ([**], dated April 15, 1999).

5.0 DOCUMENT CONTROL

Supplier shall use commercially reasonable efforts to ensure that all documents such as software/firmware, engineering drawings, specifications, contracts, policies, procedures, manufacturing process flow chart, and work instructions (including test procedures) are under revision control and available to all necessary Supplier personnel in Supplier’s manufacturing environment. Supplier shall have a system for the effective updating/removal of any obsolete documentation from all manufacturing areas.

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

6.0 RECORDS

Supplier shall establish and maintain procedures for identification, collection, indexing, filing, storage, maintenance, and disposition of all quality records including, but not limited to: Statistical Process Control (“SPC”) data. This includes raw data or control charts, Cp and Cpk for critical/identified process parameters, and all records which provide evidence of sub-tier supplier activity, such as source inspections and First Article inspections, and records of all inspection and test activity to provide objective evidence that Products have passed acceptance criteria. Records shall be maintained for the life of the SOW plus the entire warranty period, as set forth in the SOW. All records shall be maintained in a central location and shall upon request be made available to Buyer’s quality representative for review only. All such documents shall be deemed to be the Confidential Information of Supplier.

7.0 CONTINUOUS IMPROVEMENT PROCESS

Supplier shall develop and implement a continuous improvement process that will provide for a cost-effective reduction in process-related excursions. The program, at a minimum, shall include: the supplier management strategy; manufacturing process controls (i.e., Maverick Product Elimination); a documented, systematic approach for identifying focus areas for continuous improvement for the [**], through the [**] of the SOW, or for [**] from the start of the SOW, whichever is shorter; and Early Failure Rate, Intrinsic Failure Rate, Shipped Product Quality Level and Failure Rate commitment and reduction plans to achieve Buyer goals. Supplier shall provide, at Buyer’s request, status of the continuous improvement process and results.

8.0 QUALITY PROBLEM NOTIFICATION TO BUYER

Supplier must notify Buyer of any quality or reliability problem which may affect Products, that have been identified by Supplier’s internal testing (i.e., process control data, internal test data, burn-in data, etc.), by contract manufacturers which produce Products on behalf of Supplier, or by another customer (see ISO 9001). In case of problems, Supplier shall use commercially reasonable efforts to provide Buyer with the requested traceability data (p/n, lot number, date code, volumes, ship to locations, etc.) within [**]. The notification should include an immediate containment plan and a schedule for definition and implementation of permanent corrective actions. After the notification there shall be no shipment of suspect Products to Buyer without prior approval from Buyer’s quality representative.

9.0 PRODUCT RE-QUALIFICATION COSTS

Following Buyer qualification of the Product, Buyer reserves the right to re-qualify any product if the Supplier changes the manufacturing process, product (form, fit or function), raw materials, or specifications which may affect performance, function, quality or reliability. Supplier shall bear the reasonable costs of any re-qualifications required for changes made without Buyer’s approval in accordance with Section 6.0 of the SOW.

10. PART HISTORY

Supplier shall maintain a history file for each Product part number manufactured that tracks: materials and/or design changes controlled by the supplier; design changes controlled by Buyer (engineering changes, etc.); and purchased part manufacturer source changes.

11. PART QUALITY

Unless otherwise specifically agreed upon within the SOW, Supplier shall be responsible for the quality levels of each of Supplier’s components that comprise the Product or final assembly.

12. CORRECTIVE ACTION PROCESS

Following a lot rejection by Buyer under Section 6.0 of the Goods Agreement, or a quality problem notification under Section 8 of this SQA, Supplier shall implement a corrective action process which shall provide documentation to identify the following: a) Specific defect description and failure mechanism; b) Containment of affected Product; c) Technical investigation/root cause analysis; d) Corrective action plan and preventive actions to preclude a recurrence, and; e) Verification of effectiveness of actions. With the exception of safety defects with respect to which Supplier shall provide a preliminary failure analysis not to exceed [**] from receipt of suspected defective product, failure analysis response times from Supplier will

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

not exceed [**] from receipt of suspected defective product for preliminary analysis and fourteen (14) days for detailed analysis. The corrective action process shall include a checkpoint to determine if additional Products are exposed and the corrective action process and documentation specified within this Section.

13. EXCEPTION APPROVAL PROCESS

Supplier shall not knowingly ship nonconforming Product to Buyer without written approval from Buyer's quality representative. In certain cases, Buyer's quality representative may approve shipment of suspected nonconforming Product if an evaluation plan pre-approved by the quality representative is executed with results reasonably acceptable to the representative.

14. REVIEW AND DISPOSITION OF NONCONFORMING PRODUCTS

If Supplier intends to ship nonconforming Product to Buyer, then Supplier shall implement a Material Review Board ("MRB") to review and determine the disposition of nonconforming materials. At a minimum, the MRB shall consist of representatives from Manufacturing, Engineering and Quality Engineering. The Supplier's process shall include the following dispositions: a) Rework — Product reworked to meet specified requirements; b) Use As Is — No actions taken on Product, Product does not meet specified requirements but is functional; c) Repaired — Product has been reworked to be functional but does not meet specified requirements; d) Scrap — Product not useable and does not meet specified requirements, or; e) Screen — Additional product test/inspection to meet specification. Any plans to rework or repair nonconforming materials shall be subject to final approval by Buyer's quality representative, such approval not to be unreasonably withheld. Any plans to use as-is must be pre-approved by Buyer's quality representative. All MRB records shall be maintained by Supplier and upon request, made available to Buyer for review. All MRB records shall be deemed the Confidential Information of Supplier.

15. PRODUCT IDENTIFICATION AND LOT TRACEABILITY

Supplier shall establish and maintain procedures and processes for the identification and lot traceability of critical components during all stages of production, delivery, and installation per applicable ISO standards. Identification must be traceable through to the finished Product by serial numbers or equivalent methods. Both forward and backward traceability shall be available. Response time for traceability requests shall not exceed [**].

16. QUALITY REPORTING

Monthly executive summary reports in a format mutually agreed upon format shall be forwarded to Buyer at a mutually agreeable time or as specified in specific PQRs. Continuous quality reporting real time will be via SQMS or as specified in specific PQRs.

17. SUPPLIER QUALITY & RELIABILITY ("SQR") REVIEW MEETINGS

Buyer requires regular Supplier quality/reliability meetings determined by a mutually agreeable schedule, to increase visibility into product and field performance. The intent is to conduct timely meetings in preparation for future business reviews/contractual negotiations. The agenda for the meeting shall be as set forth in exhibit 1 unless otherwise mutually agreed by the parties.

18. APPLICABLE PRODUCT SPECIFICATIONS & TESTS

- a. *ISO 2859-1 (Sampling Procedures for Inspection by Attributes)*
- b. *ISO 3951 (Sampling Procedures for Inspection by Variables)*

19. QUALITY MANAGEMENT

Quality issues will be managed according to the terms and conditions in the Agreement.

Supplier will develop and maintain a Supplier Quality Requirements Document (SQRD) as described or required by Buyer. Buyer may amend the SQRD utilizing a Product Quality Addendum (PQA) containing product-specific requirements, metrics, etc.

This document will cover, but is not limited to, the following:

- § Supplier Quality Policy

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

- § Process definition and Flow Charts
- § Continuous Improvement
- § Change Management (Engineering and Process)
- § Sub- Supplier Management
- § Data Management
- § Operator Training and Certification
- § Supplier or Supplier's subcontractor(s) will provide yield and inspection data to Buyer on a monthly basis. Supplier and Buyer will establish periodic Quality Meetings, such frequency to be determined by Buyer. Such meetings could include but are not limited to those items listed below:
 - o Average Outgoing Quality
 - o Field Returns
 - o Ongoing Reliability Test
 - o In Process Yields / Data Monitoring
 - o Process Change Notification
 - o Alerts / Stop Ship History and Actions

20. USE OF SUBCONTRACTORS

Supplier's use of subcontractors will not relieve Supplier of the responsibility for the subcontractor's performance, and Supplier's responsibilities assumed under this Agreement will be equally applicable to such subcontractors, as must be agreed upon between Supplier and such subcontractors. Buyer reserves the right to review both the Supplier's management system for the operations of its subcontractors and to review with Supplier, their subcontractor's management system for operations for the purposes of this Agreement. Buyer reserves the right to reject Supplier's use of a subcontractor in performance of this Agreement for any reason.

**Attachment C
INITIAL BUSINESS TERMS
FOR ETHERNET NETWORKING PRODUCTS**

[**].
[**].
[**] [**]
[**]
[**] [**]
[**] [**]
[**]
[**]
• [**]. [**]
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].
• [**].

[**].
[**]
[**] [**]
[**]
[**]
[**]
[**]
[**]
[**]
[**]
[**]

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

[**]
[**] [**]
[**][**] [**]
[**]
[**] [**]
[**] [**]
[**]
[**]
[**]
[**]
[**]
[**]:
[**]
[**]
a. [**].
b. [**];
c. [**]
d. [**].

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

ATTACHMENT D

Sales Assistance and Support

1. Marketing Approval

Under the terms of this Attachment, Buyer approves Supplier to perform certain sales and support activities on Buyer’s behalf. If an End User requests, or if Supplier does not fulfill Supplier’s responsibilities under the terms of this Attachment, the SOW or the Agreement, Buyer may terminate in writing, its approval for Supplier to perform such activities for such End User.

2. Sales Assistants

2.1 Supplier will provide, [**], the following described individuals as dedicated Sales Assistance and Support personnel to support the sales of the Products and Services in the identified geographies (“Sales Assistants”). Such Sales Assistants shall be exclusively dedicated to the marketing, selling and distributing of Buyer branded Products and Services, [**] substantially based on its performance in selling such Products and Services and will be managed separately from Supplier’s staff that market and sell any Supplier or third-party branded products or services. To the extent that Buyer discloses to the Sales Assistants any information concerning Buyer’s [**], Supplier will ensure that such individuals will not share or disclose such information to any other of Supplier’s employees, representatives or agents responsible for the [**] of Supplier’s or other third parties products or services [**] covered by this Attachment.

Each Sales Assistant will be assigned to support [**]. [**].

- [**]
- [**]
- [**]
- [**]
- [**]
- [**]
- [**]
- [**]
- [**]
- [**]
- [**]

[**]

- Reporting Structure: [**]
- [**].
- [**].
- [**].

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

3. The Parties' Relationship Under this Attachment

The parties agree that:

- a. unless otherwise agreed to in writing by the parties, each party is responsible for its own expenses regarding fulfillment of its responsibilities and obligations under the terms of this Attachment;
- b. neither of party will assume or create any obligations on behalf of the other or make any representations or warranties about the other, other than those authorized;
- c. each party will comply with all applicable laws and regulations (such as those governing consumer transactions); and
- d. Supplier and the entities within its Enterprise are allowed to store and use Buyer's contact information, including names, phone numbers and e-mail addresses, anywhere Supplier does business. Such information will be processed and used solely in connection with our business relationship through this Agreement, and may be provided to contractors, resellers, and assignees of Supplier and entities within its Enterprise for uses consistent with their collective business activities, including communicating with Buyer (for example, for processing orders, for promotions and for market research).
- e. Neither Supplier nor Buyer shall offer or make payments or gifts (monetary or otherwise) to anyone for the purpose of wrongfully influencing decisions in favor of Buyer, directly or indirectly

4. Supplier's Responsibilities To Buyer

Supplier agrees:

- a. [**]
- b. [**]
- c. [**]
- d. [**]
- e. [**]
- f. [**]
- g. [**]
- h. [**]
- i. to comply with the terms of the Code of Conduct set forth in URL: http://www-200.ibm.com/partnerworld/pwhome.nsf/weblook/pub_join_memctr_agreement_code.html

5. Supplier's Responsibilities To End Users

5.1 Supplier agrees to perform [**]:

- a. [**]
- b. [**]

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

- c. [**]
- d. [**]
- e. [**]
- f. [**]
- g. [**].

5.2 Marketing to Public Sector End Users

[**].

6. Demonstration and Evaluation Products and Services

Supplier may acquire from Buyer Products and Services for demonstration and evaluation purposes, unless Buyer specifies otherwise. Such Products and Services must be used primarily in support of Supplier's Sales Assistant activities.

7. Trademarks

Buyer will notify Supplier in writing of the applicable Buyer trademarks, logos and/or emblems ("Buyer Marks") Supplier is authorized to use. Buyer will provide Supplier with written guidelines regarding the use of Buyer Marks, which Buyer may periodically modify. Supplier may use the Buyer Marks only:

- a. In association with Products and Services Buyer authorizes Supplier to market; and
- b. as described in the written guidelines provided to Supplier.

Supplier agrees not to register or use any mark that is confusingly similar to any of the Buyer's Marks. Buyer's Trademarks and any goodwill resulting from them, belong to Buyer.

8. Confidential Information

The following shall be considered Supplier's Confidential Information under the terms and conditions of CDA #[**] dated February 2, 1999 and any Supplements thereto which have been signed or which may be signed in the future:

- a. All information marks or otherwise states to be confidential;
- b. Any information Supplier identifies as "Confidential" on a Supplier website or on Supplier's systems; Buyer's accessing of such information is considered Buyer's Agreement to accept it as confidential;
- c. Any of the following prepared or provided by Supplier:
 - (1) Sale leads;
 - (2) Information regarding End Users;
 - (3) Unannounced information about Products or Services;
 - (4) Business plans; or
 - (5) Market intelligence; and
- d. Any of the following information Buyer provides to Supplier on Buyer's request:
 - (1) Reporting data;

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

- (2) Financial data;
- (3) The business plan;
- (4) Customer satisfaction data; or
- (5) Sales information.

9. Supplier and Supplier Personnel

Notwithstanding anything to the contrary in this Attachment, Supplier remains an independent contractor and this Agreement does not create an agency, partnership or joint venture relationship between Buyer and Supplier or Buyer and Supplier's personnel. Buyer assumes no liability or responsibility for Supplier Personnel. Supplier will: (i) ensure it and Supplier Personnel are in compliance with all laws, regulations, ordinances and licensing requirements; (ii) be responsible for the supervision, control, compensation, withholdings, health and safety of Supplier's personnel; (iii) ensure that Supplier personnel performing Services on Buyer's or Customer's premises comply with On Premises Guidelines set forth below; (iv) inform Buyer if a former employee of Buyer will be assigned work under this Agreement, such assignment subject to Buyer's approval; (v) be solely responsible for training of Supplier personnel and for establishing and maintaining records pertaining to such training which will be subject to audit by Buyer or as part of an ISO audit; (vi) upon request, provide Buyer, for export evaluation purposes, the country of citizenship and permanent residence and immigration status of assigned Supplier personnel (Buyer retaining the right to refuse to accept the assignment of Buyer personnel for export reasons); and (vii) Supplier personnel comply with Buyer's Business Conduct Guidelines.

10. On Premises Guidelines

Supplier will ensure that Supplier Personnel assigned to work on Buyer's or Buyer's Customer's premises will:

- (1) to the extent permitted by local law, participate in a pre-assignment criminal background check covering the regions in which the person was employed, assigned or resided for the past seven years (or longer as required by local law) , and Supplier will only assign personnel who have not been convicted of any crime or offense: (1) punishable as a felony or with a maximum term of imprisonment of one year or more; or (2) involving an act of dishonesty, fraud, deceit or misrepresentation or which involves conduct which would cause a reasonable person to have substantial doubts about the individual's honesty, fairness, respect for the rights of others, or for the laws. In the event the background check is completed after the assignment is made and the assignee fails the background check, Supplier will not disclose any details of the background report to Buyer. Instead, Supplier will inform Buyer that Supplier cannot be compliant with the terms of this Agreement if the assignee remains with Buyer under the terms of this Attachment
- (2) maintain a current and complete list of the persons' names and social security/employee identification numbers;
- (3) obtain from Buyer for each person a valid identification badge from and ensure that it is displayed to gain access to and while on Buyer's premises (it is Buyer's policy to deactivate such badges if not used for one month);
- (4) maintain a signed acknowledgment that each person will comply with Buyer's posted Safety and Security Guidelines;
- (5) ensure that each person with regular access to Buyer's and Buyer's customer's premises complies with all parking restrictions and with vehicle registration requirements if any;

- (6) at Buyer's request, remove a person from Buyer's or Buyer's customer's premises and not reassign such person to work on Buyer's or Buyer's customer's premises (Buyer is not required to provide a reason for such request), and
- (7) notify Buyer immediately upon completion or termination of any assignment and return Buyer's identification badge and any other items or materials provided by Buyer (and upon request, provide documentation of compliance with this requirement).

11. General Business Activity Restriction

Supplier will ensure that Supplier personnel assigned to work on Buyer's or Buyer's customer's premises:

- (1) will not conduct any non-Buyer related business activities (such as interviews, hirings, dismissals, or personnel solicitations);
- (2) will not conduct Supplier's personnel training (except for training relating to such employee's assignment under this Attachment);
- (3) will not attempt to participate in Buyer or Buyer customer benefit plans or activities;
- (4) will not send or receive non-Buyer related mail or e-mail through Buyer or Buyer customer's mail or e-mail systems; and
- (5) will not sell, advertise or market any products or distribute printed, written or graphic materials on Buyer's or Buyer's customer's premises without Buyer's written permission.

12. Buyer's Safety and Security Guidelines

Supplier will ensure that Supplier personnel assigned to work on Buyer's or Buyer's Customer's premises:

- (1) do not bring weapons of any kind onto Buyer's or Buyer's Customer's premises;
- (2) do not manufacture, sell, distribute, possess, use or be under the influence of controlled substances (for nonmedical reasons) or alcoholic beverages while on Buyer's or Buyer's Customer's premises;
- (3) do not have in their possession hazardous materials of any kind on Buyer's or Buyer's Customer's premises without Buyer's authorization;
- (4) acknowledge that all persons, property, and vehicles entering or leaving Buyer's or Buyer's Customer's premises are subject to search; and
- (5) remain in authorized areas only (limited to the work locations, cafeterias, rest rooms and, in the event of a medical emergency, Buyer's or Buyer's Customer's medical facilities). Supplier will promptly notify Buyer of any accident or security incidents involving loss of or misuse or damage to Buyer's intellectual or physical assets; physical altercations; assaults; or harassment and provide Buyer with a copy of any accident or incident report involving the above. Supplier must coordinate with Buyer or Customer access to Buyer's or Buyer's Customer's premises during non-regular working hours.

13. Asset Control

In the event Supplier Personnel has access to information, information assets, supplies or other property, including property owned by third parties but provided to Supplier personnel by Buyer ("Buyer Assets"), Supplier personnel:

- (1) will not remove Buyer Assets from Buyer's or Buyer's Customer's premises without Buyer's authorization;
- (2) will use Buyer Assets only for purposes of this Agreement and reimburse Buyer for any unauthorized use;
- (3) will only connect with, interact with or use programs, tools or routines that Buyer agrees are needed to provide Services;
- (4) will not share or disclose user identifiers, passwords, cipher keys or computer dial port telephone numbers;
- (5) in the event the Buyer Assets are confidential, will not copy, disclose or leave such assets unsecured or unattended. Buyer may periodically audit Supplier's data residing on Buyer Assets; and
- (6) will comply with Buyer's Security and Use Guidelines for IBM Employees..

14. Supervision of Supplier's Personnel

Supplier will provide continual supervision of its personnel provided under this Agreement, at no additional cost to Buyer. Supplier's supervisor shall have full supervisory authority over all day-to-day employment relationship decisions relating to Supplier's personnel, including those decisions relating to: wages, hours, terms and conditions of employment, hiring, discipline, performance evaluations, termination, counseling and scheduling. Supplier's supervisors responsible for each work location will be responsible to know that work location's planned holiday (and other closing) schedules and the impacts all such schedules have on Supplier's personnel. Supplier will conduct orientation sessions with its personnel before placement on an assignment with Buyer, during which orientation such personnel will be told who their Supplier supervisor is and how that supervisor can be contacted. Supplier will, from time to time, ensure that all of its personnel working under this Agreement continue to be aware of this information.

15. Business Reviews

The parties will review issues relating to assignment of Sales Assistants at the quarterly meetings contemplated in Attachment C.

BROCADE COMMUNICATIONS SYSTEMS, INC.

2009 DIRECTOR PLAN

1. Purposes of the Plan. The purposes of this Plan are to attract and retain the best available personnel for service as Outside Directors of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors, and to encourage their continued service on the Board.

The Plan permits the grant of options and restricted stock units. All options granted hereunder will be nonstatutory stock options.

Under the Plan the subsequent annual grants will be made on the date of the Company's Annual Meeting. The Plan will be effective as of its approval by stockholders of the Company at the Company's 2009 Annual Meeting.

2. Definitions. As used herein, the following definitions will apply:

(a) "Annual Meeting" means the Company's annual meeting of stockholders.

(b) "Applicable Laws" means the requirements relating to the administration of equity-based awards under U.S. state corporate laws, U.S. federal and state securities laws, the Code, any stock exchange or quotation system on which the Common Stock is listed or quoted and the applicable laws of any foreign country or jurisdiction where Awards are, or will be, granted under the Plan.

(c) "Award" means, individually or collectively, a grant under the Plan of Options or Restricted Stock Units.

(d) "Board" means the Board of Directors of the Company, or a duly authorized committee of the Board of Directors of the Company.

(e) "Change in Control" means the occurrence of any of the following events:

(i) Change in Ownership of the Company. A change in the ownership of the Company which occurs on the date that any one person, or more than one person acting as a group ("Person"), acquires ownership of the stock of the Company that, together with the stock held by such Person, constitutes more than 50% of the total voting power of the stock of the Company; or

(ii) Change in Effective Control of the Company. If the Company has a class of securities registered pursuant to Section 12 of the Exchange Act, a change in the effective control of the Company which occurs on the date that a majority of members of the Board is replaced during any 12 month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election. For purposes of this clause (ii), if any Person is considered to be in effective control of the Company, the acquisition of additional control of the Company by the same Person will not be considered a Change in Control; or

(iii) Change in Ownership of a Substantial Portion of the Company's Assets. A change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the 12 month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair

market value equal to or more than 50% of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For purposes of this subsection (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

For purposes of this Section 2(e), persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company.

Notwithstanding the foregoing, a transaction will not be deemed a Change in Control unless the transaction qualifies as a change in control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time.

Further and for the avoidance of doubt, a transaction will not constitute a Change in Control if: (i) its sole purpose is to change the state of the Company's incorporation, or (ii) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(f) "Code" means the Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or Treasury Regulation thereunder will include such section or regulation, any valid regulation or other official applicable guidance promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation.

(g) "Common Stock" means the common stock of the Company.

(h) "Company" means Brocade Communications Systems, Inc., a Delaware corporation, or any successor thereto.

(i) "Director" means a member of the Board.

(j) "Disability" means total and permanent disability as defined in section 22(e)(3) of the Code.

(k) "Employee" means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. Neither service as a Director nor the payment of a Director's fee by the Company will be sufficient to constitute "employment" by the Company.

(l) "Exchange Act" means the Securities Exchange Act of 1934, as amended.

(m) "Fair Market Value" means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq Global Market, the Nasdaq Global Select Market or the Nasdaq Capital Market of The Nasdaq Stock Market, its fair market value will be the closing sales price for such stock (or, if no closing sales price was reported on that date, as applicable, on the last trading date such closing sales price was reported) as quoted on such exchange or

system on the day of determination, as reported in *The Wall Street Journal* or such other source as the Board deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, its fair market value will be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or, if no bids and asks were reported on that date, as applicable, on the last trading date such bids and asks were reported); or

(iii) In the absence of an established market for the Common Stock, the fair market value thereof will be determined in good faith by the Board.

(n) "Inside Director" means a Director who is an Employee.

(o) "Option" means a stock option granted pursuant to the Plan.

(p) "Outside Director" means a Director who is not an Employee.

(q) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(r) "Participant" means the holder of an outstanding Award.

(s) "Plan" means this 2009 Director Plan.

(t) "Restricted Stock Unit" or "RSU" means a bookkeeping entry representing an amount equal to the Fair Market Value of one Share, and granted to a Participant pursuant to Section 6 of the Plan. Each restricted stock unit represents an unfunded and unsecured obligation of the Company.

(u) "Share" means a share of the Common Stock, as adjusted in accordance with Section 14 of the Plan.

(v) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

3. Stock Subject to the Plan.

(a) Stock Subject to the Plan. Subject to the provisions of Section 14 of the Plan, the maximum aggregate number of Shares that may be awarded under the Plan is 2,000,000 Shares (the "Pool"), plus any Shares subject to stock options or similar awards granted under the Company's 1999 Director Plan that expire or otherwise terminate without having been exercised in full and Shares issued pursuant to awards granted under the Company's 1999 Director Plan that are forfeited to or repurchased by the Company, with the maximum number of Shares to be added to the Plan pursuant to this clause equal to 870,000 Shares. The Shares may be authorized, but unissued, or reacquired Common Stock.

(b) Lapsed Awards. If an outstanding Award expires or becomes unexercisable without having been exercised in full, or with respect to Restricted Stock Units, is forfeited to the Company due to failure to vest, the unpurchased or forfeited Shares which were subject thereto will become available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan will not be returned to the Plan and will not become available for future distribution under the Plan. Shares used to pay the exercise price of an Award or to satisfy the

tax withholding obligations related to an Award will not become available for future grant or sale under the Plan.

(c) Full Value Awards. An Award of Restricted Stock Units will be counted against the Pool as 1.56 Shares for every 1 Share subject to such Award. To the extent that an Award counted as 1.56 Shares against the Pool at the time of grant pursuant to the preceding sentence is forfeited or repurchased by the Company and returned to the Plan (e.g., upon Award termination), the Plan will be credited with 1.56 Shares that will thereafter be available for future issuance under the Plan.

4. Options.

(a) Administration of Option Grants.

(i) All grants of Options to Outside Directors under this Plan will be automatic and nondiscretionary and will be made strictly in accordance with the following provisions; provided, however, that the Board may, in its sole discretion, provide that certain Outside Directors are not eligible to receive grants of Options for specified periods of time.

(ii) No person will have any discretion to determine the number of Shares to be covered by Options.

(iii) In the event that any Option granted under the Plan would cause the number of Shares subject to outstanding Options plus the number of Shares previously purchased under Options to exceed the Pool, then the remaining Shares available for Option grant will be granted under Options to the Outside Directors on a pro rata basis. No further grants will be made until such time, if any, as additional Shares become available for grant under the Plan through action of the Board or the stockholders to increase the number of Shares which may be issued under the Plan or through cancellation or expiration of Options previously granted hereunder.

(b) Prohibition Against Repricing. Subject to the provisions of Section 14 of the Plan, the terms of any Option may not be amended to reduce the exercise price of outstanding Options or cancel outstanding Options in exchange for cash, other Awards or Options with an exercise price that is less than the exercise price of the original Option without stockholder approval.

5. Exercise of Options.

(a) Procedure for Exercise of an Option; Rights as Stockholder.

(i) Any Option granted hereunder will be exercisable at such times as are set forth in Section 7(a) or 8(a), as applicable; provided, however, that no Options will be exercisable until stockholder approval of the Plan in accordance with Section 20 has been obtained.

(ii) An Option may not be exercised for a fraction of a Share.

(iii) An Option will be deemed to be exercised when the Company receives: (x) written or electronic notice of exercise (in accordance with the terms of the Option) from the person entitled to exercise the Option and (y) full payment for the Shares with respect to which the Option is exercised (together with any applicable tax withholding). Full payment may consist of any consideration and method of payment allowable under Section 12 of the Plan. Shares issued upon exercise of an Option will be issued in the name of the Participant or, if requested by the Participant, in

the name of the Participant and his or her spouse. Until the Shares are issued (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company), no right to vote or receive dividends or any other rights as a stockholder will exist with respect to the Shares subject to any Option, notwithstanding the exercise of the Option. The Company will issue (or cause to be issued) such Shares promptly. No adjustment will be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 14 of the Plan.

(iv) Exercise of an Option in any manner will result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Continuous Status as a Director. Subject to Section 14, in the event an Participant's status as a Director terminates (other than upon the Participant's death or Disability), the Participant may exercise his or her Option, but only within 3 months following the date of such termination, and only to the extent that the Participant was entitled to exercise it on the date of such termination (but in no event later than the expiration of its 7 year term). To the extent that the Participant was not entitled to exercise an Option on the date of such termination, and to the extent that the Participant does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option will terminate.

(c) Disability of Participant. In the event Participant's status as a Director terminates as a result of Disability, the Participant may exercise his or her Option, but only within 12 months following the date of such termination, and only to the extent that the Participant was entitled to exercise it on the date of such termination (but in no event later than the expiration of its 7 year term). To the extent that the Participant was not entitled to exercise an Option on the date of termination, or if he or she does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option will terminate and the Shares covered by such Option will revert to the Plan.

(d) Death of Participant. If a Participant dies while still a Director, the Participant's estate or a person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option, but only within 12 months following the date of death, and only to the extent that the Participant was entitled to exercise it on the date of death (but in no event later than the expiration of its 7 year term). To the extent that the Participant was not entitled to exercise an Option on the date of death, and to the extent that the Participant's estate or a person who acquired the right to exercise such Option does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option will terminate and the Shares covered by such Option will revert to the Plan.

6. Restricted Stock Units.

(a) Procedures for Grants.

(i) All grants of Restricted Stock Units to Outside Directors under this Plan will be automatic and nondiscretionary and will be made strictly in accordance with the following provisions; provided, however, that the Board may, in its sole discretion, provide that certain Outside Directors are not eligible to receive grants of Restricted Stock Units for specified periods of time.

(ii) No person will have any discretion to determine the number of Shares to be covered by Restricted Stock Units.

(b) Form and Timing of Payment. Restricted Stock Units will be settled in Shares, on a one unit for one Share basis. When Shares are paid to the Participant in payment for the Restricted Stock Units, par value (\$.001 per share) will be deemed paid by the Participant for each Restricted Stock Unit by services rendered by the Participant. Payment of earned Restricted Stock Units will be made as soon as practicable after the date(s) determined by the Board but no later than March 15th of the calendar year following the applicable vesting date.

(c) Cancellation. On the date of Participant's termination as a Director, all unvested Restricted Stock Units will be forfeited to the Company.

(d) Additional RSU Terms.

(i) *Company's Obligation to Pay*. Unless and until the Restricted Stock Units have vested in the manner set forth above, the Participant 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 will be made in whole Shares.

(ii) *Rights as Stockholder*. Neither the Participant nor any person claiming under or through the Participant 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 Participant (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the Participant 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.

7. First Awards.

(a) First Option Grant. Each Outside Director will be automatically granted an Option to purchase 50,000 shares (the "First Option") on the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director but who remains a Director will not receive a First Option. The terms of a First Option granted hereunder will be as follows:

(i) the term of the First Option will be 7 years.

(ii) the First Option will be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Sections 5 and 14.

(iii) the exercise price per Share will be 100% of the Fair Market Value per Share on the date of grant of the First Option.

(iv) subject to Section 14, the First Option will become exercisable as to 1/3 of the Shares subject to the First Option each anniversary following its date of grant, so as to become 100% vested on the 3rd anniversary of the date of grant, provided that the Participant continues to serve as a Director on such dates.

(b) First RSU Grant.

(i) Grant. Each Outside Director will be automatically granted 15,000 Restricted Stock Units (“First RSU”) on the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy; provided, however, that an Inside Director who ceases to be an Inside Director but who remains a Director will not receive a First Option.

(iii) Vesting. Subject to Section 14, the First RSU will vest and become payable as to 1/3 of the Shares subject to the First RSU on the 1 year anniversary of the date of grant, and as to 1/3 of the Shares subject to the First RSU at each anniversary thereafter, so that the First RSU will be fully vested and become payable in full 3 years after its date of grant, provided that the Participant continues to serve as a Director on such dates.

8. Subsequent Awards.

(a) Subsequent Option Grant. Subject to proration under Section 9 below, each Outside Director will be automatically granted an Option to purchase 20,000 shares (“Subsequent Option”) annually on the date of the Annual Meeting, provided that such Outside Director had served as an Outside Director prior to such Annual Meeting and that he or she continues to be an Outside Director at and immediately following such Annual Meeting. The terms of a Subsequent Option granted hereunder will be as follows:

(i) the term of the Subsequent Option will be 7 years.

(ii) the Subsequent Option will be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Sections 5 and 14.

(iii) the exercise price per Share will be 100% of the Fair Market Value per Share on the date of grant of the Subsequent Option.

(iv) subject to Section 14, the Subsequent Option will become exercisable as to 100% of the Shares subject to the Subsequent Option on the earlier of the 1 year anniversary of the date of grant or the next Annual Meeting, provided that the Participant continues to serve as a Director on such date.

(b) Subsequent RSU Grant.

(i) Grant. Subject to proration under Section 9, each Outside Director will be automatically granted 10,000 Restricted Stock Units (the “Subsequent RSU”) annually on the date of the Annual Meeting, provided that such Outside Director had served as an Outside Director prior to such Annual Meeting and that he or she continues to be an Outside Director at and immediately following such Annual Meeting.

(ii) Vesting. Subject to Section 14, the Subsequent RSU will vest and become payable as to 100% of the Shares subject to the Subsequent RSU on the earlier of the 1 year anniversary of the date of grant or the next Annual Meeting, provided that the Participant continues to serve as a Director on such date.

9. Subsequent Award Pro Ration Policy for New Directors Appointed Before an Annual Meeting. At the first (and only the first) Annual Meeting after an Outside Director first becomes an Outside Director, such Outside Director will receive at such Annual Meeting, a proportionate amount of the Subsequent Option and Subsequent RSU (in lieu of the full Subsequent Option and Subsequent RSU) based on the date of such Outside Director's appointment as follows:

(a) Appointment on the date of the Annual Meeting, or after the date of the Annual Meeting but prior to the end of the Company's 2nd fiscal quarter of the fiscal year prior to the fiscal year during which the Annual Meeting occurs: 100% of both the Subsequent Option and Subsequent RSU.

(b) Appointment in the Company's 3rd fiscal quarter of the fiscal year prior to the fiscal year during which the Annual Meeting occurs: 75% of both the Subsequent Option and Subsequent RSU.

(c) Appointment in the Company's 4th fiscal quarter of the fiscal year prior to the fiscal year during which the Annual Meeting occurs: 50% of both the Subsequent Option and Subsequent RSU.

(d) Appointment in the Company's 1st fiscal quarter of the fiscal year during which the Annual Meeting occurs: 25% of both the Subsequent Option and Subsequent RSU.

(e) Appointment in the Company's 2nd fiscal quarter of the fiscal year during which the Annual Meeting occurs and before the Annual Meeting date for such fiscal year: 0% of both the Subsequent Option and Subsequent RSU.

10. Eligibility. Awards may be granted only to Outside Directors. All Options will be automatically granted in accordance with the terms set forth in Section 4 here of. All Restricted Stock Units will be granted in accordance with the terms set forth in Section 6.

The Plan will not confer upon any Participant any right with respect to continuation of service as a Director or nomination to serve as a Director, nor will it interfere in any way with any rights which the Director or the Company may have to terminate the Director's relationship with the Company at any time.

11. Term of Plan. This Plan is effective as of its approval by the stockholders of the Company at the Company's 2009 Annual Meeting as described in Section 20 of the Plan. It will continue in effect until the tenth anniversary of the Plan's initial effectiveness unless sooner terminated under Section 15 of the Plan.

12. Form of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, will consist of:

(i) cash;

(ii) check;

(iii) other Shares which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option will be exercised;

(iv) net issue exercise, whereby Participant surrenders an Option at the principal office of the Company (or such other office or agency as the Company may designate) together with a properly

completed and executed exercise notice reflecting such election, in which event the Company will issue to the Participant that number of Shares computed using the following formula:

$$X = \frac{Y(A - B)}{A}$$

Where:

X = the number of Shares to be issued to Participant;

Y = the number of Shares subject to the Option or, if only a portion of the Option is being exercised, the portion of the Option being cancelled (at the date of such calculation);

A = the Fair Market Value of one Share (at the date of such calculation);

B = the exercise price per Share of the Option (as adjusted to the date of the calculation);

(v) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

(vi) any combination of the foregoing methods of payment.

13. Non-Transferability of Awards. Except as described in the Award Agreements, Awards may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of an Award, the Award immediately will become null and void.

14. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of Shares covered by each outstanding Award, the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per Share covered by each such outstanding Award will be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; provided, however, that conversion of any convertible securities of the Company will not be deemed to have been "effected without receipt of consideration"; provided, further, that the number of Shares subject to subsequently granted First Options, Subsequent Options, First RSUs, and Subsequent RSUs will not be proportionately adjusted. Except as expressly provided herein, no issuance by the Company of shares of stock of any class, or securities convertible into shares of stock of any class, will affect, and no adjustment by reason thereof will be made with respect to, the number or price of Shares subject to an Award.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised or a Restricted Stock Unit has not vested, it will terminate immediately prior to the consummation of such proposed action.

(c) Change in Control.

(i) In the event of a Change in Control, outstanding Awards may be assumed or equivalent Awards may be substituted by the successor corporation or a Parent or Subsidiary thereof (the "Successor Corporation"). If an Award is assumed or substituted for, the Award or equivalent award will continue to be exercisable or vest as provided in Section 7 or 8, as applicable, for so long as the Participant serves as a Director or a director of the Successor Corporation. Following such assumption or substitution, if the Participant's status as a Director or director of the Successor Corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant, the Award or award will become fully exercisable, including as to Shares for which it would not otherwise be exercisable. Thereafter, the Award or award will remain exercisable in accordance with Sections 5(b) through (d) above.

(ii) If the Successor Corporation does not assume an outstanding Option or substitute for it an equivalent option, the Option will become fully vested and exercisable, including as to Shares for which it would not otherwise be exercisable. In such event the Board will notify the Participant that the Option will be fully exercisable for a period of 30 days from the date of such notice, and upon the expiration of such period the Option will terminate. If the Successor Corporation does not assume an outstanding grant of Restricted Stock Units or substitute for it an equivalent award, the grant of Restricted Stock Units will vest immediately prior to the consummation of the applicable transaction.

(iii) For the purposes of this Section 14(c), an Award will be considered assumed if, following the Change in Control, the Award confers the right to purchase or receive, for each Share subject to the Award immediately prior to the Change in Control, the consideration (whether stock, cash, or other securities or property) received in the Change in Control by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the Change in Control is not solely common stock of the successor corporation or its Parent, the Board may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Option, or upon the payout of a Restricted Stock Unit, for each Share subject to the Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the Change in Control.

15. Amendment and Termination of the Plan.

(a) Amendment and Termination. The Board may at any time amend, alter, suspend, or discontinue the Plan, but no amendment, alteration, suspension, or discontinuation will be made which would impair the rights of any Participant under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with Applicable Laws, the Company will obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

(b) Effect of Amendment or Termination. Any such amendment or termination of the Plan will not affect Awards already granted and such Awards will remain in full force and effect as if this Plan had not been amended or terminated.

16. Time of Granting of Awards. The date of grant of an Award will, for all purposes, be the date determined in accordance with Section 4 and 6.

17. Conditions Upon Issuance of Shares.

(a) Shares will not be issued under any Award unless the issuance and delivery of such Shares pursuant thereto, and in the case of an Option, the exercise of such Option, will comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and will be further subject to the approval of counsel for the Company with respect to such compliance.

(b) As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

(c) Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company's counsel to be necessary to the lawful issuance and sale of any Shares hereunder, will relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority will not have been obtained.

18. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as will be sufficient to satisfy the requirements of the Plan.

19. Award Agreement. Awards will be evidenced by written award agreements in such form as the Board will approve.

20. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company at the Company's 2009 Annual Meeting. Such stockholder approval will be obtained in the degree and manner required under Applicable Laws.

21. No Guarantee of Continued Service. The Plan will not confer upon any Participant any rights with respect to continuation of service as a Director or other service provider to the Company or nomination to serve as a Director, nor will it interfere in any way with any rights which the Director of the Company may have to terminate the Director's relationship with the Company at any time.

BROCADE COMMUNICATIONS SYSTEMS, INC.

DIRECTOR OPTION AGREEMENT

Brocade Communications Systems, Inc., (the "Company"), has granted to [] (the "Optionee"), an option to purchase a total of [] Shares of the Company's Common Stock at the price determined as provided herein, and in all respects subject to the terms, definitions and provisions of the Company's 2009 Director Plan (the "Plan"), which is incorporated herein by reference. The terms defined in the Plan will have the same defined meanings herein.

1. Nature of the Option. This Option is a nonstatutory option and is not intended to qualify for any special tax benefits to the Optionee.

2. Exercise Price. The Exercise Price is \$_____ for each Share.

3. Exercise of Option. This Option will be exercisable during its term in accordance with the provisions of Section 5 of the Plan as follows:

(a) Right to Exercise.

(i) This Option will become exercisable [VESTING SCHEDULE].

(ii) This Option may not be exercised for a fraction of a Share.

(iii) In the event of Optionee's death, disability or other termination of service as a Director, the exercisability of the Option is governed by Section 5 of the Plan.

(b) Method of Exercise. This Option is exercisable by delivery of written or electronic notice of exercise, in a form provided by the Stock Administrator of the Company (the "Exercise Notice"), which will state the election to exercise the Option, the number of Shares in respect of which the Option is being exercised (the "Exercised Shares"), and such other representations and agreements as may be required by the Company pursuant to the provisions of the Plan. The Exercise Notice will be completed by the Optionee and delivered to the Stock Administrator of the Company. The Exercise Notice will be accompanied by payment of the aggregate Exercise Price (together with any applicable tax withholdings) as to all Exercised Shares. This Option will be deemed to be exercised upon receipt by the Company of such fully executed Exercise Notice accompanied by such aggregate Exercise Price.

4. Method of Payment. Payment of the exercise price will be by:

(a) cash;

(b) check;

(c) other Shares which have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Option will be exercised;

(d) net issue exercise, whereby Optionee surrenders an Option at the principal office of the Company (or such other office or agency as the Company may designate)

together with a properly completed and executed exercise notice reflecting such election, in which event the Company will issue to the Optionee that number of Shares computed using the following formula:

$$X = \frac{Y(A - B)}{A}$$

Where:

X = the number of Shares to be issued to Optionee;

Y = the number of Shares subject to the Option or, if only a portion of the Option is being exercised, the portion of the Option being cancelled (at the date of such calculation);

A = the Fair Market Value of one Share (at the date of such calculation);

B = the exercise price per Share of the Option (as adjusted to the date of the calculation);

(e) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

(f) any combination of the foregoing methods of payment.

5. Restrictions on Exercise. This Option may not be exercised if the issuance of such Shares upon such exercise or the method of payment of consideration for such Shares would constitute a violation of any applicable federal or state securities or other law or regulations, or if such issuance would not comply with the requirements of any stock exchange upon which the Shares may then be listed. As a condition to the exercise of this Option, the Company may require Optionee to make any representation and warranty to the Company as may be required by any applicable law or regulation.

6. Non-Transferability of Option. This Option may not be transferred in any manner otherwise than by will or by the laws of descent or distribution and may be exercised during the lifetime of Optionee only by the Optionee. Notwithstanding the foregoing, Optionee may, in a manner and in accordance with terms specified by the Stock Administrator of the Company, transfer Options to Optionee'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. The terms of the Plan and this Option Agreement will be binding upon the executors, administrators, heirs, successors and assigns of the Optionee.

7. Term of Option. This Option may not be exercised more than seven (7) years from the date of grant of this Option, and may be exercised during such period only in accordance with the Plan and the terms of this Option.

DATE OF GRANT: _____

BROCADE COMMUNICATIONS SYSTEMS, INC.,
a Delaware corporation

By: _____

Optionee acknowledges receipt of a copy of the Plan, a copy of which is attached hereto, and represents that he or she is familiar with the terms and provisions thereof, and hereby accepts this Option subject to all of the terms and provisions thereof. Optionee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Board upon any questions arising under the Plan.

Dated: _____

Optionee

CERTIFICATION

I, Michael Klayko, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended May 2, 2009 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: June 2, 2009

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

CERTIFICATION

I, Richard Deranleau, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended May 2, 2009 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: June 2, 2009

/s/ Richard Deranleau
Richard Deranleau
Chief Financial Officer
(Principal Accounting Officer)

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

I, Michael Klayko, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Brocade Communications Systems, Inc. for the fiscal quarter ended May 2, 2009 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: June 2, 2009

By: /s/ Michael Klayko

Michael Klayko
Chief Executive Officer

I, Richard Deranleau, 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 May 2, 2009 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: June 2, 2009

By: /s/ Richard Deranleau

Richard Deranleau
Chief Financial Officer