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 April 30, 2011

OR

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

For the transition period from ______ to ______

Commission file number: 000-25601

Brocade Communications Systems, Inc.
(Exact name of registrant as specified in its charter)

Delaware	**77-0409517**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

130 Holger Way
San Jose, CA 95134
(408) 333-8000
(Address, including zip code, of registrant's principal executive offices and telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the registrant's common stock as of May 27, 2011 was 479,420,982 shares.

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BROCADE COMMUNICATIONS SYSTEMS, INC.

FORM 10-Q

QUARTER ENDED April 30, 2011

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Forward-Looking Statements

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

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
	(In thousands, except per share amounts)			
Net revenues				
Product	$459,028	$409,885	$ 916,318	$ 858,970
Service	90,869	91,098	179,596	181,505
Total net revenues	549,897	500,983	1,095,914	1,040,475
Cost of revenues (1)				
Product (1)	171,075	161,042	348,691	326,819
Service (1)	48,680	44,451	95,937	89,028
Total cost of revenues	219,755	205,493	444,628	415,847
Gross margin				
Product	287,953	248,843	567,627	532,151
Service	42,189	46,647	83,659	92,477
Total gross margin	330,142	295,490	651,286	624,628
Operating expenses:				
Research and development	91,941	89,351	183,349	179,433
Sales and marketing (1)	156,979	132,019	309,646	254,079
General and administrative	18,469	15,941	36,559	32,180
Legal fees associated with indemnification obligations and other related costs, net	—	277	124	578
Amortization of intangible assets	15,023	16,190	31,213	33,242
Acquisition and integration costs	—	—	—	204
Total operating expenses	282,412	253,778	560,891	499,716
Income from operations	47,730	41,712	90,395	124,912
Interest and other income (loss), net	27	(903)	376	(831)
Interest expense	(20,745)	(19,522)	(42,291)	(41,595)
Gain (loss) on sale of investments and property, net	(11)	253	(17)	(8,575)
Income before income tax provision (benefit)	27,001	21,540	48,463	73,911
Income tax provision (benefit)	(612)	(840)	(6,329)	436
Net income	$ 27,613	$ 22,380	$ 54,792	$ 73,475
Net income per share — basic	$ 0.06	$ 0.05	$ 0.12	$ 0.17
Net income per share — diluted	$ 0.06	$ 0.05	$ 0.11	$ 0.15
Shares used in per share calculation — basic	473,209	442,816	469,158	440,948
Shares used in per share calculation — diluted	501,511	479,166	496,338	481,714

(1) The three and six months ended May 1, 2010 is as adjusted due to the reclassification of system engineer costs from cost of revenues to sales and marketing expenses. See Note 1, “Basis of Presentation and Reclassification,” of the Notes to Condensed Consolidated Financial Statements.

See accompanying notes to condensed consolidated financial statements.

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

	April 30, 2011	October 30, 2010
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	$ 463,562	$ 333,984
Short-term investments	2,027	1,998
Total cash, cash equivalents and short-term investments	465,589	335,982
Accounts receivable, net of allowances of $8,735 and $6,721 at April 30, 2011 and October 30, 2010, respectively	302,784	329,564
Inventories	93,163	76,808
Deferred tax assets	67,145	67,080
Prepaid expenses and other current assets	68,390	65,017
Total current assets	997,071	874,451
Property and equipment, net	539,300	539,117
Goodwill	1,638,931	1,644,950
Intangible assets, net	283,854	344,000
Non-current deferred tax assets	222,994	203,454
Other assets	47,787	48,203
Total assets	$ 3,729,937	$ 3,654,175
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 138,530	$ 147,130
Accrued employee compensation	117,480	91,688
Deferred revenue	205,187	185,623
Current liabilities associated with facilities lease losses	4,566	5,992
Current portion of capital lease obligations	1,813	1,761
Current portion of term loan	34,542	28,779
Other accrued liabilities	101,357	108,310
Total current liabilities	603,475	569,283
Non-current capital lease obligations, net of current portion	5,862	6,782
Term loan, net of current portion	197,767	297,118
Senior Secured Notes	595,584	595,373
Non-current liabilities associated with facilities lease losses	2,557	3,984
Non-current deferred revenue	66,848	65,242
Non-current income tax liability	64,377	61,421
Other non-current liabilities	9,165	8,671
Total liabilities	1,545,635	1,607,874
Commitments and contingencies (Note 9)		
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: 476,745 and 461,291 shares at April 30, 2011 and October 30, 2010, respectively	477	461
Additional paid-in capital	2,130,417	2,047,563
Accumulated other comprehensive loss	(2,488)	(2,827)
Retained earnings	55,896	1,104
Total stockholders' equity	2,184,302	2,046,301
Total liabilities and stockholders' equity	$ 3,729,937	$ 3,654,175

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	April 30, 2011	May 1, 2010
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 54,792	$ 73,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits or detriments from stock-based compensation	877	(63)
Depreciation and amortization	104,233	97,613
Loss on disposal of property and equipment	1,910	9,459
Amortization of debt issuance costs and original issue discount	9,195	11,784
Net gains on investments	(10)	(217)
Provision for doubtful accounts receivable and sales allowances	5,071	5,867
Non-cash compensation expense	42,436	51,668
Capitalization of interest cost	—	(7,035)
Changes in assets and liabilities:		
Restricted cash	—	12,502
Accounts receivable	22,236	(5,588)
Inventories	(17,664)	(4,668)
Prepaid expenses and other assets	(6,907)	10,557
Deferred tax assets	(30)	—
Accounts payable	(10,253)	(68,644)
Accrued employee compensation	19,715	(48,480)
Deferred revenue	21,169	11,274
Other accrued liabilities	(11,976)	(7,199)
Liabilities associated with facilities lease losses	(2,853)	(5,476)
Net cash provided by operating activities	231,941	136,829
Cash flows from investing activities:		
Purchases of short-term investments	(38)	(24)
Proceeds from maturities and sale of short-term investments	20	1,788
Proceeds from sale of property	—	30,185
Purchases of property and equipment	(50,575)	(109,387)
Net cash used in investing activities	(50,593)	(77,438)
Cash flows from financing activities:		
Payment of debt issuance fees related to the Senior Secured Notes	—	(3,002)
Payment of principal related to the revolving credit facility	—	(14,050)
Payment of principal related to the convertible subordinated debt	—	(172,500)
Payment of principal related to the term loan	(98,640)	(522,244)
Common stock repurchases	—	(20,003)
Payment of principal related to capital leases	(868)	—
Proceeds from Senior Secured Notes	—	587,968
Proceeds from issuance of common stock, net	47,388	39,819
Excess tax benefits or detriments from stock-based compensation	(877)	63
Net cash used in financing activities	(52,997)	(103,949)
Effect of exchange rate fluctuations on cash and cash equivalents	1,227	(2,402)
Net increase (decrease) in cash and cash equivalents	129,578	(46,960)
Cash and cash equivalents, beginning of period	333,984	334,193
Cash and cash equivalents, end of period	$463,562	$ 287,233

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation and Reclassification

Brocade Communications Systems, Inc. ("Brocade" or the "Company") has prepared the accompanying Condensed Consolidated Financial Statements as of April 30, 2011 and for the three and six months ended April 30, 2011 and May 1, 2010, without audit, pursuant to the rules and regulations of the United States ("U.S.") Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. The October 30, 2010 Condensed Consolidated Balance Sheet was derived from the Company's 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 30, 2010.

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 April 30, 2011, results of operations for the three and six months ended April 30, 2011 and May 1, 2010, and cash flows for the six months ended April 30, 2011 and May 1, 2010 have been made. The results of operations for the three and six months ended April 30, 2011 are not necessarily indicative of the operating results for the full fiscal year or any future period.

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. Both fiscal years 2011 and 2010 are 52-week fiscal years. The Company's next 53-week fiscal year will be fiscal year 2014 and the Company's next 14-week quarter will be in the second quarter of fiscal year 2014. The Condensed Consolidated Financial Statements include the accounts of Brocade and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates in Preparation of Condensed Consolidated Financial Statements

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

Reclassification

During fiscal year 2010, we reviewed our cost classification, primarily related to our system engineer ("SE") costs that were previously classified within cost of revenues. The SE's primary role has migrated over time from assisting with customer support to primarily performing pre-sales activity to generate future business, which was enabled by the growth of our support organization, such that in 2010 the majority of the SE's time was spent on pre-sales activity. As a result of this change, we have reclassified the SE costs within our Consolidated Statements of Operations starting in fiscal year 2010. These costs are now presented within sales and marketing expenses, as opposed to cost of revenues. The three and six months ended May 1, 2010 reflect the reclassification of $32.2 million and $63.9 million, respectively, of SE costs from cost of revenues to sales and marketing expenses. These reclassifications did not impact revenues, income from operations, net income, or earnings per share for 2010.

2. Summary of Significant Accounting Policies

There have been no material changes in the Company's significant accounting policies for the six months ended April 30, 2011 as compared to those disclosed in Brocade's Annual Report on Form 10-K for the fiscal year ended October 30, 2010.

Recent Accounting Pronouncements

In December 2010, the FASB issued an update to ASC 350 Intangibles — Goodwill and Other ("ASC 350"): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts. The update requires an entity with reporting units that have carrying amounts that are zero or negative to assess whether it is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings as required by Section 350-20-35. This update to ASC 350 will be adopted by the Company in the first quarter of fiscal year 2012. The Company is currently evaluating the impact of the update, but does not expect the adoption to have a material impact on its financial position, results of operations, or cash flows.

In December 2010, the FASB issued an update to ASC 805 Business Combinations ("ASC 805"): Disclosure of Supplementary Pro Forma Information for Business Combinations. The amendments in this update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments in this update also expand the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The update to ASC 805 will be adopted by the Company for any acquisitions occurring after the beginning of the first quarter of fiscal year 2012, with earlier adoption permitted.

Concentrations

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

A majority of the Company's accounts receivable balance is derived from sales to OEM partners in the computer storage and server industry. As of April 30, 2011, three customers accounted for 17%, 14% and 11%, respectively, of total accounts receivable. As of October 30, 2010, three customers accounted for 17%, 14% and 10%, 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.

For the three months ended April 30, 2011, four customers each represented 10% or more of the Company's total net revenues for a combined total of 53% of total net revenues. For the three months ended May 1, 2010, three customers each represented 10% or more of the Company's total net revenues for a combined total of 44% of total net revenues.

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

3. Goodwill and Intangible Assets

The following table summarizes goodwill activity by reportable segment during the six months ended April 30, 2011 (in thousands):

	Data Storage	Ethernet Products	Global Services	Total
Balance at October 30, 2010				
Goodwill	$ 176,989	$ 1,356,704	$ 157,089	$1,690,782
Accumulated impairment losses	—	(45,832)	—	(45,832)
	176,989	1,310,872	157,089	1,644,950
Tax and other adjustments during the six months ended April 30, 2011 (1)	(4)	(6,015)	—	(6,019)
Balance at April 30, 2011				
Goodwill	$ 176,985	$ 1,350,689	$ 157,089	$1,684,763
Accumulated impairment losses	—	(45,832)	—	(45,832)
	$ 176,985	$ 1,304,857	$ 157,089	$1,638,931

(1) The goodwill adjustment of $6.0 million was primarily a result of the tax benefit from the exercise of stock awards of acquired companies.

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The Company conducts its goodwill impairment test annually, as of the first day of the second fiscal quarter, or whenever events or changes in facts and circumstances indicate that the fair value of the reporting unit may be less than its carrying amount. For the annual goodwill impairment test, the Company uses the income approach, the market approach, or a combination thereof, to determine each reporting unit's fair value. The income approach provides an estimate of fair value based on discounted expected future cash flows ("DCF"). The market approach provides an estimate of fair value using various prices or market multiples applied to the reporting unit's operating results and then applying an appropriate control premium. During the fiscal year 2011 annual goodwill impairment test under the first step, the Company used a combination of approaches to estimate each reporting unit's fair value. The Company believed that at the time of impairment testing performed in second fiscal quarter of 2011, the income approach and the market approach were equally representative of a reporting unit's fair value.

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

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

The Company's estimates of revenues and costs are based on historical data, various internal estimates and a variety of external sources, and are developed as part of our regular long-range planning process. The control premium used in market or combined approaches is determined by considering control premiums offered as part of the acquisitions that have occurred in the reporting units' comparable market segments. Based on goodwill impairment analysis results during the second fiscal quarter of 2011, the Company determined that no impairment needed to be recorded.

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

April 30, 2011	**Gross Carrying Value**	**Accumulated Amortization**	**Net Carrying Value**	**Weighted-Average Remaining Useful Life (in years)**
Trade name	$ 13,941	$ 11,304	$ 2,637	8.75
Core/developed technology	338,158	217,852	120,306	2.30
Customer relationships	364,981	204,070	160,911	2.78
Total intangible assets	$717,080	$ 433,226	$283,854	2.64

October 30, 2010	**Gross Carrying Value**	**Accumulated Amortization**	**Net Carrying Value**	**Weighted-Average Remaining Useful Life (in years)**
Trade name	$ 13,941	$ 11,150	$ 2,791	9.24
Core/developed technology	338,158	189,643	148,515	2.75
Customer relationships	364,981	172,287	192,694	3.23
Total intangible assets	$717,080	$ 373,080	$344,000	3.07

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Cost of revenues	$ 14,466	$ 14,467	$ 28,933	$ 32,317
Operating expenses	15,023	16,190	31,213	33,242
Total	$ 29,489	$ 30,657	$ 60,146	$ 65,559

The following table presents the estimated future amortization of intangible assets as of April 30, 2011 (in thousands):

Fiscal Year	Estimated Future Amortization
2011 (remaining six months)	$ 59,624
2012	107,062
2013	94,057
2014	16,816
2015	1,449
Thereafter	4,846
Total	$ 283,854

4. Balance Sheet Details

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

	April 30, 2011	October 30, 2010
Accounts Receivable:		
Accounts receivable	$ 311,519	$ 336,285
Allowance for doubtful accounts	(1,752)	(1,838)
Sales allowances	(6,983)	(4,883)
Total	$ 302,784	$ 329,564
Inventories:		
Raw materials	$ 29,198	$ 19,384
Finished goods	63,965	57,424
Total	$ 93,163	$ 76,808
Property and equipment, net: (1)		
Computer equipment and software	$ 51,024	$ 47,949
Engineering and other equipment	331,554	296,383
Furniture and fixtures (2)	27,801	28,283
Leasehold improvements	22,425	20,908
Land and building (3)	384,746	381,480
Subtotal	817,550	775,003
Less: Accumulated depreciation and amortization	(278,250)	(235,886)
Total	$ 539,300	$ 539,117
Other accrued liabilities:		
Income taxes payable	$ 13,481	$ 10,400
Accrued warranty	7,873	5,980
Inventory purchase commitments	2,448	4,930
Accrued sales programs	18,077	26,806
Accrued expenses	35,150	53,616
Others	24,328	6,578
Total	$ 101,357	$ 108,310

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Depreciation expense	$22,222	$15,943	$44,087	$32,054

(2) Effective May 1, 2010, the Company prospectively changed the estimated useful life of its furniture from 4 years to 7 years for furniture placed in service on or after that date. The Company will continue to use the straight-line method to depreciate furniture. The change in useful life was adopted because the life of the new furniture is estimated to be longer than previously purchased furniture. The impact to the Company's results of operations during the three and six months ended April 30, 2011 was not material. There was no impact to the Company's results of operations during the three and six months ended May 1, 2010. Furniture placed in service prior to May 1, 2010 will continue to be depreciated over 4 years using the straight-line method and have a net book value of $2.5 million as of April 30, 2011. In addition, furniture and fixtures include the following amounts under leases as of April 30, 2011 and October 30, 2010:

	April 30, 2011	October 30, 2010
Cost	$10,613	$ 10,632
Accumulated depreciation	(1,373)	(615)
Total	$ 9,240	$ 10,017

(3) In connection with the purchase of property located in San Jose, California, the Company engaged a third party as development manager to manage the development and construction of improvements on the property for our new company campus. Included in "Land and building" as of April 30, 2011 and October 30, 2010 is $8.0 million that the Company has agreed to pay the developer on May 22, 2011 or earlier. Brocade also obtained a four-year option, exercisable at its sole discretion through May 22, 2012, to purchase a fourth unimproved approximate four acre parcel for a fixed price of approximately $26.0 million. Construction of our new company campus was completed in the third quarter of fiscal year 2010.

Trade Receivables Factoring Facility

During April 2010, the Company entered into a trade receivables factoring facility with a financial institution to sell certain of its trade receivables from customers with limited, non-credit related, recourse provisions. The sale of receivables eliminates the credit exposure of the Company in relation to these receivables. The Company pays facility administration fees to the financial institution on a quarterly basis. Under the terms of the factoring agreement, the maximum available amount of the factoring facility outstanding at any one time is $50.0 million, which is subject to change based on the financial institution's approval. During the three and six months ended April 30, 2011, $20.7 million and $29.9 million, respectively, of trade receivables were sold under the terms of the factoring facility. During the three and six months ended May 1, 2010, $19.5 million of trade receivables were sold under the terms of the factoring facility. Sales of trade receivables are recorded as a reduction of trade accounts receivable. The discounts on the sale of receivables for the three and six months ended April 30, 2011 and the three and six months ended May 1, 2010 were immaterial and are included in "Interest and other income (loss), net" on the Condensed Consolidated Statements of Income. Facility administration fees for the three and six months ended April 30, 2011 and the three and six months ended May 1, 2010 were immaterial and are included in "General and administrative expenses" on the Condensed Consolidated Statements of Income.

5. Investments

The following table summarizes the Company's short-term investments (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
April 30, 2011				
Corporate bonds	$ 2,027	$ —	$ —	$2,027
October 30, 2010				
Corporate bonds	$ 1,998	$ —	$ —	$1,998

As of April 30, 2011 and October 30, 2010, the Company had no unrealized holding gains/losses on investments. Net unrealized holding gains or losses on investments, if any, are included in accumulated other comprehensive loss in the accompanying Condensed Consolidated Balance Sheets.

6. Fair Value Measurements

Fair value is 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. The Company applies fair value measurements for both financial and nonfinancial assets and liabilities. The Company has no nonfinancial assets and liabilities that are required to be measured at fair value on a recurring basis as of April 30, 2011.

The fair value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, restricted cash, accounts payable and accrued liabilities, approximate cost because of their short maturities.

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

Fair Value Hierarchy

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

Level 1: Observable inputs that reflect quoted prices in active markets for identical assets or liabilities. Brocade's assets utilizing Level 1 inputs include money market funds.

Level 2: Inputs that reflect quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in 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 assets and liabilities utilizing Level 2 inputs include corporate bonds and derivative instruments, respectively.

Level 3: Unobservable inputs that reflect the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available. Brocade has no assets or liabilities utilizing Level 3 inputs.

Assets and liabilities measured at fair value on a recurring basis as of April 30, 2011 were as follows (in thousands):

		Fair Value Measurements Using		
	Balance as of April 30, 2011	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	$ 145,668	$ 145,668	$ —	$ —
Corporate bonds	2,027	—	2,027	—
Derivative assets	6,971	—	6,971	—
Total assets measured at fair value	$ 154,666	$ 145,668	$ 8,998	$ —

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

Assets and liabilities measured at fair value on a recurring basis as of October 30, 2010 were as follows (in thousands):

		Fair Value Measurements Using		
	Balance as of October 30, 2010	Quoted Prices in Active Markets For Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Money market funds (1)	$ 92,981	$ 92,981	$ —	$ —
Corporate bonds	1,998	—	1,998	—
Derivative assets	$ 6,450	$ —	$ 6,450	$ —
Total assets measured at fair value	$ 101,429	$ 92,981	$ 8,448	$ —

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

The Company uses a midpoint of the highest bid and lowest offering obtained from market makers to value its corporate bonds. The Company uses observable market prices for comparable instruments to value its derivative instruments.

7. Liabilities Associated with Facilities Lease Losses

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

	Lease Loss Reserve
Reserve balance at October 30, 2010	$ 9,976
Cash payments on facilities leases	(2,853)
Reserve balance at April 30, 2011	$ 7,123

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.

8. Borrowings

Senior Secured Notes

On January 20, 2010, the Company issued $300.0 million aggregate principal amount of its 6.625% Senior Secured Notes due 2018 at an issue price of 99.239% of the principal amount of the notes (the “2018 Notes”) and $300.0 million aggregate principal amount of its 6.875% Senior Secured Notes due 2020 at an issue price of 99.114% of the principal amount of the notes (the “2020 Notes” and, together with the 2018 Notes, the “Senior Secured Notes”), in a private placement to “qualified institutional buyers” in the United States defined in Rule 144A under the Securities Act of 1933, as amended (the “Securities Act”), and outside the United States pursuant to Regulation S under the Securities Act (the “Notes Offering”). The 2018 Notes mature on January 15, 2018 and bear interest at a rate of 6.625% per annum, payable semi-annually on January 15 and July 15 of each year, commencing on July 15, 2010. The 2020 Notes mature on January 15, 2020 and bear interest at a rate of 6.875% per annum, payable semi-annually on January 15 and July 15 of each year, commencing on July 15, 2010. The Company’s obligations under the Senior Secured Notes are guaranteed by certain of the Company’s domestic subsidiaries (the “Subsidiary Guarantors”). The obligations of the Company and the Subsidiary Guarantors under the Senior Secured Notes and the related guarantees are secured by liens, subject to certain exceptions and permitted liens and subject to the terms of an intercreditor agreement, on all assets of the Company and the Subsidiary Guarantors that secure any obligations under the Senior Secured Credit Facility, as described below.

The Company used approximately $435.0 million of the net proceeds of the Notes Offering to prepay a portion of the outstanding term loan under the Senior Secured Credit Facility on January 20, 2010, and used the remaining net proceeds, together with cash on hand, to retire on February 16, 2010 the 2.25% subordinated convertible notes (“2.25% Notes”) originally issued by McDATA Corporation (“McDATA”), a wholly owned subsidiary of Brocade.

As of April 30, 2011, the liability associated with the 2018 Notes of $298.0 million, net of the debt discount of $2.0 million, and the liability associated with the 2020 Notes of $297.6 million, net of the debt discount of $2.4 million, are together reported as “Senior Secured Notes” on the Condensed Consolidated Balance Sheets. As of October 30, 2010, the liability associated with the 2018 Notes of $297.9 million, net of the debt discount of $2.1 million, and the liability associated with the 2020 Notes of $297.5 million, net of the debt discount of $2.5 million, are together reported as “Senior Secured Notes” on the Condensed Consolidated Balance Sheets.

Debt issuance costs totaling $11.0 million associated with the Senior Secured Notes are classified entirely as long-term and have been capitalized as deferred financing costs, with $1.2 million and $0.7 million amortized as of April 30, 2011 and October 30, 2010, respectively. As of April 30, 2011 and October 30, 2010, deferred financing costs were $9.8 million and $10.3 million, respectively, and are reported within “Other assets” on the Condensed Consolidated Balance Sheets. The deferred financing costs of the 2018 Notes and the 2020 Notes are being amortized using the effective interest method over the eight-year and ten-year term of the debt, respectively. No payments were made towards the principal of the Senior Secured Notes during the six months ended April 30, 2011.

As of April 30, 2011 and October 30, 2010, the fair value of the company's Senior Secured Notes was approximately $645.8 million and $645.4 million, respectively, estimated based on broker trading prices.

The 2018 Notes were issued pursuant to an indenture, dated as of January 20, 2010 (the "2018 Indenture"), among the Company, the Subsidiary Guarantors and Wells Fargo Bank, National Association, as trustee. The 2020 Notes were issued pursuant to an indenture, dated as of January 20, 2010 (the "2020 Indenture" and, together with the 2018 Indenture, the "Indentures"), among the Company, the Subsidiary Guarantors and Wells Fargo Bank, National Association, as trustee.

On or after January 15, 2013, the Company may redeem all or a part of the 2018 Notes at the redemption prices set forth in the 2018 Indenture, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date. In addition, at any time prior to January 15, 2013, the Company may, on one or more than one occasion, redeem some or all of the 2018 Notes at any time at a redemption price equal to 100% of the principal amount of the 2018 Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest and special interest, if any, to the applicable redemption date. On or after January 15, 2015, the Company may redeem all or a part of the 2020 Notes at the redemption prices set forth in the 2020 Indenture, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date. In addition, at any time prior to January 15, 2015, the Company may, on one or more than one occasion, redeem some or all of the 2020 Notes at any time at a redemption price equal to 100% of the principal amount of the 2020 Notes redeemed, plus a "make-whole" premium as of, and accrued and unpaid interest and special interest, if any, to the applicable redemption date. At any time prior to January 15, 2013, the Company may also redeem up to 35% of the aggregate principal amount of the 2018 Notes and 2020 Notes, using the proceeds of certain qualified equity offerings, at the redemption prices set forth in the 2018 Indenture and the 2020 Indenture, respectively.

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

Each of the Indentures contains covenants that, among other things, restrict the ability of the Company and its restricted subsidiaries to:

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

These covenants are subject to a number of other limitations and exceptions set forth in the Indentures. The Company was in compliance with all applicable covenants as of April 30, 2011 and October 30, 2010.

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

In connection with the issuance of the Senior Secured Notes, the Company and the Subsidiary Guarantors also entered into registration rights agreements with the initial purchasers relating to each series of the Senior Secured Notes. On June 18, 2010, the Company and the Subsidiary Guarantors filed a registration statement on Form S-4 with respect to each series of the Senior Secured

Notes relating to an offer to exchange the applicable series of notes for an issue of SEC-registered notes, with terms identical to the applicable series of the Senior Secured Notes (except that the Exchange Notes will not be subject to restrictions on transfer or to any increase in annual interest rate). The registration statement was declared effective by the SEC on August 24, 2010, and both exchange offers were consummated on October 1, 2010. On May 20, 2011, a post-effective amendment to the registration statement was filed to remove from registration $0.5 million of the 2018 Notes that were not issued during the exchange offer.

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., Banc of America Securities LLC, 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. On January 8, 2010, the Company entered into an amendment and waiver to the credit agreement, among other things, (i) to increase flexibility under certain financial and other covenants, (ii) to permit the Company to issue additional senior indebtedness in aggregate principal amount outstanding at any time of up to $600.0 million, (iii) to permit the Company to issue additional subordinated indebtedness in aggregate principal amount outstanding at any time of up to $600.0 million, and (iv) to permit the Company to sell its accounts receivable and lease receivables for fair market value with the aggregate amount paid for such receivables, net of collections, not at any time exceeding $125.0 million. On January 20, 2010, the Company closed its offering of its 2018 Notes and its 2020 Notes as described above. The Company applied approximately $435.0 million of the proceeds of this offering to prepay the term loan, whereupon the amendment and waiver to credit agreement became effective.

The net proceeds of the term loan facility were used to finance a portion of the Company's acquisition of Foundry Networks, Inc. ("Foundry"). In addition to the term loan facility, during the year ended October 31, 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." On April 30, 2010, the Company fully paid off the principal of the revolving credit facility for an approximate total amount of $14.1 million.

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. For the six months ended April 30, 2011, the weighted-average interest rate on the term loan was 7.0%.

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), and (iii) 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 to be 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.

Debt issuance costs totaling $31.6 million associated with financing the acquisition have been capitalized as deferred financing costs, with $17.7 million and $14.3 million amortized as of April 30, 2011 and October 30, 2010, respectively. As of April 30, 2011 and October 30, 2010, deferred financing costs were $13.9 million and $17.3 million, respectively, and are reported within "Other assets" on the Condensed Consolidated Balance Sheets. The deferred financing costs are being amortized using the effective interest method over the five-year term of the debt. During the six months ended April 30, 2011, the Company paid $98.6 million towards the principal of the term loan, $80.0 million of which were voluntary prepayments. As of April 30, 2011 and October 30, 2010, the approximate fair value of the Company's Senior Secured Credit Facility was $254.2 million and $354.5 million, respectively, estimated based on broker trading prices.

The obligations of the Company and its subsidiary guarantors under the Senior Secured Credit Facility and the related guarantees there under 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 the non-voting stock of such first-tier foreign subsidiary). In addition, the term loan has not been registered with the SEC as of April 30, 2011.

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, share repurchases, dividends and other distributions. The credit agreement contains financial covenants that require the Company to maintain a minimum consolidated fixed charge coverage ratio, a maximum consolidated leverage ratio and a maximum consolidated senior secured leverage ratio, each as defined in the credit agreement and described further below. The credit agreement also includes customary events of default, including cross-defaults on the Company's material indebtedness and change of control. The Company was in compliance with all applicable covenants as of April 30, 2011 and October 30, 2010.

Covenant Compliance

Under the Senior Secured Credit Facility and the associated indentures, certain limitations, restrictions and defaults could occur if the Company is not able to satisfy and remain in compliance with specified financial ratios.

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

- Consolidated net income

Plus:

- Consolidated interest charges;
- Provision for federal, state, local and foreign income taxes;
- Depreciation and amortization expense;
- Fees, costs and expenses incurred on or prior to the closing date in connection with the acquisition and the financing thereof;
- Any cash restructuring charges and integration costs in connection with the merger, in an aggregate amount not to exceed $75.0 million;
- Non-cash restructuring charges incurred in connection with the acquisition, all as approved by Banc of America Securities LLC and Morgan Stanley Senior Funding, Inc.;
- Other non-recurring expenses reducing consolidated net income which do not represent a cash item in such period or future periods;
- Any non-cash stock-based compensation expense; and
- Legal fees associated with the indemnification obligations for the benefit of former officers and directors in connection with Brocade's historical stock option litigation;

Minus:

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

In addition, the Company must comply with the following financial covenants as noted below:

Consolidated Fixed Charge Coverage Ratio

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

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

Four Fiscal Quarters Ending During Period:	Minimum Consolidated Fixed Charge Coverage Ratio
Closing date through October 31, 2009	1.25:1.00
November 1, 2009 through October 30, 2010	1.25:1.00
October 31, 2010 through October 29, 2011	1.50:1.00
October 30, 2011 through October 27, 2012	1.75:1.00
October 28, 2012 and thereafter	1.75:1.00

Consolidated Leverage Ratio

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

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

Four Fiscal Quarters Ending During Period:	Maximum Consolidated Leverage Ratio
Closing date through October 31, 2009	4.25:1.00
November 1, 2009 through October 30, 2010	3.75:1.00
October 31, 2010 through October 29, 2011	3.00:1.00
October 30, 2011 through October 27, 2012	2.75:1.00
October 28, 2012 and thereafter	2.75:1.00

Consolidated Senior Secured Leverage Ratio

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

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

Four Fiscal Quarters Ending During Period:	Maximum Consolidated Senior Secured Leverage Ratio
Closing date through October 31, 2009	2.30:1.00
November 1, 2009 through October 30, 2010	2.50:1.00
October 31, 2010 through October 29, 2011	2.50:1.00
October 30, 2011 through October 27, 2012	2.25:1.00
October 28, 2012 and thereafter	2.00:1.00

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Convertible Subordinated Debt

The 2.25% Notes originally issued by McDATA paid a fixed rate of interest semiannually. The Company capitalized a portion of the interest associated with this debt during the six months ended May 1, 2010. In addition, the effective interest rate for the 2.25% Notes was 8.63% for fiscal year 2010 for the period through February 15, 2010 when the convertible subordinated debt was due. On February 16, 2010, the Company fully paid off the principal of the 2.25% Notes for a total amount of $172.5 million. The amount of interest cost recognized relating to both the contractual interest coupon and amortization of the discount on the liability component of the 2.25% Notes was as follows:

	Three Months Ended		Six Months Ended	
In thousands	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Interest expense	$ —	$ 652	$ —	$4,305

9. Commitments and Contingencies

Product Warranties

The Company's accrued liability for estimated future warranty costs is included in "Other accrued liabilities" in the accompanying Condensed Consolidated Balance Sheets. The following table summarizes the activity related to the Company's accrued liability for estimated future warranty costs during the six months ended April 30, 2011 and May 1, 2010 (in thousands):

	Accrued Warranty Six Months Ended	
	April 30, 2011	May 1, 2010
Beginning balance	$ 5,980	$ 5,808
Liabilities accrued for warranties issued during the period	3,502	1,425
Warranty claims paid and used during the period	(618)	(821)
Changes in liability for pre-existing warranties during the period	(991)	(1,176)
Ending balance	$ 7,873	$ 5,236

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 April 30, 2011, there have been no known material events or circumstances that have resulted in a customer contract-related indemnification liability to the Company.

Manufacturing and Purchase Commitments

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

As of April 30, 2011, the Company's aggregate commitment to the CMs for inventory components used in the manufacture of Brocade products was $246.9 million, which the Company expects to utilize during future normal ongoing operations, net of a purchase commitments reserve of $2.4 million. The Company's purchase commitments reserve reflects the Company's estimate of purchase commitments it does not expect to consume in normal ongoing operations within the next twelve months.

Income Taxes

The Company is subject to several ongoing income tax audits. For additional discussion, see Note 13, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements. The Company believes it has adequate reserves for all open tax years.

Legal Proceedings

Initial Public Offering Litigation

On July 20, 2001, the first of a number of putative class actions for violations of the federal securities laws was filed in the United States District Court for the Southern District of New York against Brocade, certain of its officers and directors, and certain of the underwriters for Brocade's initial public offering ("IPO") of securities. A consolidated amended class action captioned, In re Brocade Communications Systems, Inc. Initial Public Offering Securities Litigation, No. 01 Civ. 6613, was filed on April 19, 2002. The complaint generally 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 was coordinated for pretrial proceedings with a number of other pending litigations challenging underwriter practices in over 300 cases as In re Initial Public Offering Securities Litigation, 21 MC 92 (SAS), including actions against McDATA Corporation, Inrange Technologies Corporation ("Inrange") (which was first acquired by Computer Network Technology Corporation ("CNT") and subsequently acquired by McDATA as part of the CNT acquisition), and Foundry (collectively, the "Brocade Entities"), and certain of each entity's respective officers and directors, and initial public offering underwriters.

The parties have reached a global settlement of the coordinated litigation, under which the insurers will pay the full amount of settlement share allocated to the Brocade Entities, and the Brocade Entities will bear no financial liability. In 2009, the Court granted final approval of the settlement and certain filed appeals. A number of those appeals have now been dismissed. In May 2011, the Second Circuit issued an order remanding the remaining appeals to the district court for determination of certain matters.

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 28, 2007, the Court granted Foundry's motion to stay the case based on petitions that Foundry had filed with the United States Patent and Trademark Office ("USPTO") in 2007 for reexamination of five of the six Enterasys patents. Two of the patents received final rejections during their respective reexaminations, in which the USPTO held that the claims were invalid. Enterasys filed appeals of those rejections with the USPTO's Board of Patent Appeals and Interferences in 2009. The Board partially affirmed and partially reversed one of those rejections on January 24, 2011, and Enterasys did not appeal further, which ended the proceedings on those two patents. The USPTO has issued reexamination certificates for two of the remaining three patents undergoing reexamination indicating that the patents were valid over the references that Foundry had submitted. On March 7, 2011, the USPTO issued a Notice of Intent to Issue a Re-examination Certificate upholding the validity of the third patent. Meanwhile, on May 21, 2010, the Court lifted the stay of the litigation, and Enterasys subsequently dropped from the litigation the two patents it appealed at the USPTO. Accordingly, four patents remain at issue in the litigation. No trial date has been set.

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

On August 4, 2010, Brocade and Foundry Networks LLC ("Plaintiffs") filed a lawsuit against A10 Networks, Inc. ("A10"), A10's founder and other individuals in the United States District Court for the Northern District of California. On October 29, 2010, Plaintiffs filed an amended complaint. In the amended complaint, Brocade alleged that A10 and the individual defendants have misappropriated Plaintiff's trade secrets, infringed copyrighted works, interfered with existing contracts between the Plaintiffs and their employees, breached contracts, breached their fiduciary duties and duties of loyalty, and that certain of A10's products infringe ten of Brocade's patents. Brocade is seeking injunctive relief, as well as monetary damages. On May 16, 2011, A10 filed an answer and counterclaim alleging that certain of Brocade's products infringe a patent recently acquired by A10 and seeking injunctive relief as well as unspecified damages. Trial is scheduled for July 17, 2012.

General

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

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. Except as may be noted above, the Company has not recorded any such material liabilities as of April 30, 2011 other than with respect to one litigation matter relating to a commercial contract dispute.

10. 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 is transacted in U.S. dollars. However, the Company is exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to its operations for the six months ended April 30, 2011 were the Chinese yuan, the euro, the Japanese yen, the British pound, the Singapore dollar and the Swiss franc. The Company is primarily exposed to foreign currency fluctuations related to operating expenses denominated in currencies other than the U.S. dollar. The Company has established a foreign currency risk management program to protect against fluctuations in the volatility of future cash flows caused by changes in foreign currency exchange rates. This program reduces, but does not always entirely eliminate, the impact of foreign currency exchange rate movements. The Company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S. dollar-denominated cash flows. These instruments generally have a maturity of less than one year. For these derivatives, the Company reports the after-tax gain or loss from the effective portion of the hedge as a component of accumulated other comprehensive loss in stockholders' equity and reclassifies it into earnings in the same period in which the hedged transaction affects earnings. Prior to fiscal year 2011, these gains or losses were included in "Interest and other income (loss), net" on the condensed consolidated statements of income. Beginning in the first fiscal quarter of 2011, these gains or losses are now presented within "Cost of revenues" and "Operating expenses," to match the underlying exposure to the related hedge results. Prior period amounts are not material and have not been reclassified. Net gains (losses) relating to the effective portion of foreign currency derivatives recorded in the condensed consolidated statements of income are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Cost of revenues	$ 186	$ —	$ 286	$ —
Research and development	186	—	186	—
Sales and marketing	1,354	—	1,923	—
General and Administrative	130	—	130	—
Interest and other income (loss), net	—	(1,040)	—	(405)
Total	$ 1,856	$ (1,040)	$ 2,525	$ (405)

The Company also may enter into other non-designated derivatives that consist primarily of forward contracts to minimize the risk associated with the foreign exchange effects of revaluing monetary assets and liabilities. Monetary assets and liabilities denominated in foreign currencies and any associated outstanding forward contracts are marked-to-market with realized and unrealized gains and losses included in "Interest and other income (loss), net." There were no forward contracts of this nature outstanding as of April 30, 2011.

For amounts not associated with foreign currency forward contracts, gains and losses from transactions denominated in foreign currencies are included in the Company's net income as part of "Interest and other income (loss), net," in the accompanying Condensed Consolidated Statements of Income. The Company recognized foreign currency transaction gains of $0.3 million and $0.5 million for the three and six months ended April 30, 2011, respectively, and foreign currency transaction losses of $0.2 million and $0.3 million for the three and six months ended May 1, 2010, respectively.

Volume of Derivative Activity

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

In United States Dollars	As of April 30, 2011	As of October 30, 2010
Euro	$ 33,424	$ 53,700
British pound	13,623	22,018
Japanese yen	8,502	14,306
Singapore dollar	7,728	12,427
Swiss franc	6,363	9,554
Total	$ 69,640	$ 112,005

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

Net unrealized loss positions are recorded within "Other accrued liabilities" and net unrealized gain positions are recorded within "Prepaid and other current assets." As of April 30, 2011, the Company had a gross unrealized gain positions of $5.8 million included in "Prepaid and other current assets." The amount of $5.8 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 Income, was not significant.

11. Sale-Leaseback Transactions

During the six months ended May 1, 2010, the Company sold an owned real estate property to an unrelated third party. Net proceeds from this sale were $30.2 million. Concurrent with this sale, the Company entered into an agreement to lease the property back from the purchaser over a minimum lease term of two years. The Company considers this lease as a normal leaseback and classified the lease as an operating lease. An $8.7 million loss on the sale of the property was recognized immediately upon execution of the sale and is recorded within "Gain (loss) on sale of investments and property, net" on the Condensed Consolidated Statements of Income.

12. Stock-Based Compensation

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Cost of revenues (1)	$ 4,167	$ 4,136	$ 7,027	$ 7,048
Research and development	5,111	8,933	9,394	15,117
Sales and marketing (1)	9,619	13,144	18,411	22,843
General and administrative	3,633	3,933	7,604	6,660
Total stock-based compensation	$ 22,530	$ 30,146	$ 42,436	$ 51,668

(1) The three and six months ended May 1, 2010 reflects the reclassification of SE costs from cost of revenue to sales and marketing expenses. See Note 1, "Basis of Presentation and Reclassification," of the Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Stock options, including variable options	$ 1,553	$ 4,164	$ 2,648	$ 7,906
Restricted stock awards and restricted stock units (“RSUs”)	13,510	16,637	25,383	27,085
Employee stock purchase plan (“ESPP”)	7,467	9,345	14,405	16,677
Total stock-based compensation	$ 22,530	$ 30,146	$ 42,436	$ 51,668

The following table presents unrecognized compensation expense, net of estimated forfeitures, of the Company’s equity compensation plans as of April 30, 2011, which is expected to be recognized over the following weighted-average periods, (in thousands, except for weighted-average period):

	Unrecognized Compensation Expense	Weighted-Average Period (in years)
Stock options	$ 3,987	1.00
RSUs	$ 91,357	1.86
ESPP	$ 20,001	1.10

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

	Six Months Ended April 30, 2011		Six Months Ended May 1, 2010	
	Granted (in thousands)	Weighted-Average Grant Date Fair Value	Granted (in thousands)	Weighted-Average Grant Date Fair Value
Stock options	243	$ 2.23	1,600	$ 2.99
RSUs	3,763	$ 5.33	2,982	$ 6.88

The total intrinsic value of stock options exercised for the six months ended April 30, 2011 and May 1, 2010 was $28.5 million and $36.5 million, respectively.

13. Income Taxes

For the three and six months ended April 30, 2011, the Company recorded an income tax benefit of $0.6 million and $6.3 million, respectively, primarily as a result of foreign tax expense, offset by discrete benefits from the retroactive reinstatement of the federal research and development tax credit provision as a result of the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the “Tax Relief Act”), and reserve releases from the settlement with the IRS regarding the Company’s fiscal year 2007 and 2008 audits.

For the three and six months ended May 1, 2010, the Company recorded an income tax benefit of $0.8 million and an income tax expense of $0.4 million, respectively.

The total amount of unrecognized tax benefits of $137.3 million as of April 30, 2011 would affect the Company’s effective tax rate, if recognized. Although the timing of the closure of audits is highly uncertain, it is reasonably possible that the balance of unrecognized tax benefits could significantly change during fiscal year 2011.

The IRS and other tax authorities regularly examine our income tax returns. We are currently under negotiations with the Appeals division of the IRS for the audit of fiscal years 2004 through 2006, which we expect to resolve during the next twelve months. In addition, we are in negotiations with foreign tax authorities to receive correlative relief on transfer pricing settlements with the IRS. We believe that our reserves for unrecognized tax benefits are adequate for all open tax years. The timing of the resolution of income tax examinations, as well as the amounts and timing of related settlements, is highly uncertain. The Company believes that before the end of fiscal year 2011, it is reasonably possible that either certain audits will conclude or the statute of limitations relating to certain income tax examination periods will expire, or both. As such, after we reach settlement with the IRS, we expect to record a corresponding adjustment to our unrecognized tax benefits. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between $0 and $16 million in the next twelve months.

The Company's fiscal years 2004 through 2008 are under IRS examination. The fiscal years 2004 through 2006 are currently being negotiated with the IRS Appeals Office. The Company received the revenue agent's report for fiscal years 2007 and 2008. We plan to protest the assessment of the Company's transfer pricing transactions between the Company and its wholly owned foreign subsidiary with the IRS Appeals Office. The Franchise Tax Board is auditing Foundry's California income tax returns for calendar years 2006 and 2007. These audits and appeals are still ongoing and the Company believes its reserves are adequate to cover any potential assessments and settlements that may result from these examinations. Due to the availability of net operating losses and credits, the Company does not expect a significant tax liability from the settlement of the audits.

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

14. Segment Information

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.

Brocade is organized into four operating segments, of which two are individually reportable segments: Data Storage and Global Services; and two, Ethernet Switching & Internet Protocol ("IP") Routing and Application Delivery Products ("ADP"), are combined into one reportable segment: Ethernet Products. These segments are organized principally by product category. The types of products and services from which each reportable segment derives its revenues are as follows:

- Data Storage 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"), mezzanine cards, as well as switch modules for bladed servers;
- Ethernet Products includes Open Systems Interconnection Reference Model ("OSI") Layer 2-3 switches and routers which enable efficient use of bandwidth-intensive network business applications and digital entertainment on both local area networks and wide area networks, converged network products, and OSI Layer 4-7 switches which allow enterprises and service providers to build highly available network infrastructures that efficiently direct the flow of traffic; and
- Global Services include break/fix maintenance, extended warranty, installation, consulting, network management, and related software maintenance and support revenue.

Financial decisions and the allocation of resources are based on the information from the Company's internal management reporting system. At this point in time, the Company does not track all of its assets by operating segments. The majority of the Company's assets as of April 30, 2011 were attributable to its United States operations.

Summarized financial information by reportable segment for the three and six months ended April 30, 2011 and May 1, 2010, based on the internal management reporting system, is as follows (in thousands):

	Data Storage	Ethernet Products	Global Services	Total
Three months ended April 30, 2011				
Net revenues	$ 330,369	$ 128,659	$ 90,869	$ 549,897
Cost of revenues	97,831	73,244	48,680	219,755
Gross margin	$ 232,538	$ 55,415	$ 42,189	$ 330,142
Three months ended May 1, 2010				
Net revenues	$ 281,750	$ 128,135	$ 91,098	$ 500,983
Cost of revenues (1)	88,712	72,330	44,451	205,493
Gross margin (1)	$ 193,038	$ 55,805	$ 46,647	$ 295,490
Six months ended April 30, 2011				
Net revenues	$ 661,533	$ 254,785	$ 179,596	$1,095,914
Cost of revenues	198,303	150,388	95,937	444,628
Gross margin	$ 463,230	$ 104,397	$ 83,659	$ 651,286
Six months ended May 1, 2010				
Net revenues	$ 635,400	$ 223,570	$ 181,505	$1,040,475
Cost of revenues (1)	202,295	124,524	89,028	415,847
Gross margin (1)	$ 433,105	$ 99,046	$ 92,477	$ 624,628

(1) The three and six months ended May 1, 2010 reflects the reclassification of SE costs from cost of revenue to sales and marketing expenses. See Note 1, "Basis of Presentation and Reclassification," of the Notes to Condensed Consolidated Financial Statements.

15. Net Income per Share

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Basic net income per share				
Net income	$ 27,613	$ 22,380	$ 54,792	$ 73,475
Weighted-average shares used in computing basic net income per share	473,209	442,816	469,158	440,948
Basic net income per share	$ 0.06	$ 0.05	$ 0.12	$ 0.17
Diluted net income per share				
Net income	$ 27,613	$ 22,380	$ 54,792	$ 73,475
Weighted-average shares used in computing basic net income per share	473,209	442,816	469,158	440,948
Dilutive potential common shares in the form of stock options	15,967	21,506	16,168	26,105
Dilutive potential common shares in the form of stock awards	10,654	14,584	9,763	14,299
Dilutive potential common shares in the form of ESPP shares	1,681	260	1,249	362
Weighted-average shares used in computing diluted net income per share	501,511	479,166	496,338	481,714
Diluted net income per share	$ 0.06	$ 0.05	$ 0.11	$ 0.15
Antidilutive potential common shares in the form of (1)				
Stock options	18,630	22,065	21,556	16,320
Stock awards	403	900	771	504
Antidilutive potential common shares resulting from the potential conversion of (1)				
Convertible subordinated debt	—	2,125	—	7,104

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

16. Comprehensive Income

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Net income	$27,613	$22,380	$54,792	$73,475
Other comprehensive income (loss):				
Change in net unrealized gains (losses) on cash flow hedges	1,967	(1,670)	(865)	(5,912)
Change in cumulative translation adjustments	1,350	(1,395)	1,204	(2,445)
Total comprehensive income	$30,930	$19,315	$55,131	$65,118

17. Guarantor and Non-Guarantor Subsidiaries

On January 20, 2010, the Company issued in total $600.0 million aggregate principal amount of its Senior Secured Notes. As discussed in Note 8, “Borrowings,” of the Notes to Condensed Consolidated Financial Statements, the Company’s obligations under the Senior Secured Notes are guaranteed by certain of the Company’s domestic subsidiaries. The Senior Secured Notes are not guaranteed by the Company’s Canadian or other foreign subsidiaries. The following tables present condensed consolidated financial statements for the parent company, the Subsidiary Guarantors and the foreign non-guarantor subsidiaries, respectively.

The following is the condensed consolidated balance sheet as of April 30, 2011 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash, cash equivalents and short-term investments	$ 72,746	$ 11,964	$ 380,879	$ —	$ 465,589
Accounts receivable, net	183,915	1,378	117,491	—	302,784
Inventories	74,137	—	19,026	—	93,163
Intercompany receivables	—	440,259	—	(440,259)	—
Other current assets	112,068	528	18,685	4,254	135,535
Total current assets	442,866	454,129	536,081	(436,005)	997,071
Property and equipment, net	466,576	56,682	16,042	—	539,300
Other non-current assets	1,511,952	673,552	8,062	—	2,193,566
Total assets	$ 2,421,394	$1,184,363	$ 560,185	$ (436,005)	$3,729,937
Liabilities and Stockholders’ Equity					
Current liabilities:					
Accounts payable	$ 116,210	$ 542	$ 21,778	$ —	$ 138,530
Current portion of debt	36,355	—	—	—	36,355
Intercompany payables	432,603	—	7,656	(440,259)	—
Other current liabilities	294,908	20,544	108,884	4,254	428,590
Total current liabilities	880,076	21,086	138,318	(436,005)	603,475
Debt, net of current portion	799,213	—	—	—	799,213
Other non-current liabilities	99,781	2,518	40,648	—	142,947
Total liabilities	1,779,070	23,604	178,966	(436,005)	1,545,635
Total stockholders’ equity	642,324	1,160,759	381,219	—	2,184,302
Total liabilities and stockholders’ equity	$ 2,421,394	$1,184,363	$ 560,185	$ (436,005)	$3,729,937

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The following is the condensed consolidated balance sheet as of October 30, 2010 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash, cash equivalents and short-term investments	$ 23,455	$ 8,905	$ 303,622	$ —	$ 335,982
Accounts receivable, net	220,381	1,698	107,818	(333)	329,564
Inventories	63,713	—	13,095	—	76,808
Intercompany receivables	—	399,868	—	(399,868)	—
Other current assets	118,154	875	9,999	3,069	132,097
Total current assets	425,703	411,346	434,534	(397,132)	874,451
Property and equipment, net	466,247	58,040	14,830	—	539,117
Other non-current assets	1,499,774	734,469	6,364	—	2,240,607
Total assets	$ 2,391,724	$1,203,855	$ 455,728	$ (397,132)	$3,654,175
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 128,182	$ 389	$ 18,892	$ (333)	$ 147,130
Current portion of debt	30,540	—	—	—	30,540
Intercompany payables	412,555	—	(12,687)	(399,868)	—
Other current liabilities	256,710	29,752	102,082	3,069	391,613
Total current liabilities	827,987	30,141	108,287	(397,132)	569,283
Debt, net of current portion	899,273	—	—	—	899,273
Other non-current liabilities	99,679	3,361	36,278	—	139,318
Total liabilities	1,826,939	33,502	144,565	(397,132)	1,607,874
Total stockholders' equity	564,785	1,170,353	311,163	—	2,046,301
Total liabilities and stockholders' equity	$ 2,391,724	$1,203,855	$ 455,728	$ (397,132)	$3,654,175

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

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 322,390	$ 7,417	$ 220,090	$ —	$549,897
Intercompany revenues	29,958	427	7,598	(37,983)	—
Total net revenues	352,348	7,844	227,688	(37,983)	549,897
Cost of revenues	137,612	22,552	55,917	3,674	219,755
Intercompany cost of revenues	6,909	—	31,074	(37,983)	—
Total cost of revenues	144,521	22,552	86,991	(34,309)	219,755
Gross margin (loss)	207,827	(14,708)	140,697	(3,674)	330,142
Operating expenses	219,252	12,591	54,243	(3,674)	282,412
Intercompany operating expenses	(35,607)	(6,472)	42,079	—	—
Total operating expenses	183,645	6,119	96,322	(3,674)	282,412
Income (loss) from operations	24,182	(20,827)	44,375	—	47,730
Other income (expense)	(20,112)	312	(929)	—	(20,729)
Income (loss) before income tax provision (benefit)	4,070	(20,515)	43,446	—	27,001
Income tax provision (benefit)	566	(2,854)	1,676	—	(612)
Net income (loss)	$ 3,504	$ (17,661)	$ 41,770	$ —	$ 27,613

The following is the condensed consolidated statement of income for the three months ended May 1, 2010 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 305,831	$ 13,756	$ 181,396	$ —	$500,983
Intercompany revenues	25,745	3,540	6,371	(35,656)	—
Total net revenues	331,576	17,296	187,767	(35,656)	500,983
Cost of revenues (1)	112,914	26,377	61,455	4,747	205,493
Intercompany cost of revenues	(9,795)	—	45,451	(35,656)	—
Total cost of revenues	103,119	26,377	106,906	(30,909)	205,493
Gross margin (loss) (1)	228,457	(9,081)	80,861	(4,747)	295,490
Operating expenses (1)	211,971	16,324	30,230	(4,747)	253,778
Intercompany operating expenses	(43,685)	(7,234)	50,919	—	—
Total operating expenses	168,286	9,090	81,149	(4,747)	253,778
Income (loss) from operations	60,171	(18,171)	(288)	—	41,712
Other income (expense)	(23,002)	4,142	(1,312)	—	(20,172)
Intercompany other income (expense)	(30,260)	(567)	30,827	—	—
Total other income (expense)	(53,262)	3,575	29,515	—	(20,172)
Income (loss) before income tax provision (benefit)	6,909	(14,596)	29,227	—	21,540
Income tax provision (benefit)	7,913	(10,437)	1,684	—	(840)
Net income (loss)	$ (1,004)	$ (4,159)	$ 27,543	$ —	$ 22,380

(1) As adjusted due to the reclassification of system engineer costs from cost of revenues to sales and marketing expenses. See Note 1, “Basis of Presentation and Reclassification,” of the Notes to Condensed Consolidated Financial Statements.

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

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 649,464	$ 14,881	$ 431,569	$ —	$1,095,914
Intercompany revenues	60,976	1,204	15,310	(77,490)	—
Total net revenues	710,440	16,085	446,879	(77,490)	1,095,914
Cost of revenues	277,349	43,207	116,801	7,271	444,628
Intercompany cost of revenues	13,084	—	64,406	(77,490)	—
Total cost of revenues	290,433	43,207	181,207	(70,219)	444,628
Gross margin (loss)	420,007	(27,122)	265,672	(7,271)	651,286
Operating expenses	432,134	28,820	107,208	(7,271)	560,891
Intercompany operating expenses	(77,793)	(12,853)	90,646	—	—
Total operating expenses	354,341	15,967	197,854	(7,271)	560,891
Income (loss) from operations	65,666	(43,089)	67,818	—	90,395
Other expense	(41,297)	(426)	(209)	—	(41,932)
Income (loss) before income tax provision (benefit)	24,369	(43,515)	67,609	—	48,463
Income tax provision (benefit)	61,946	(72,401)	4,126	—	(6,329)
Net income (loss)	$ (37,577)	$ 28,886	$ 63,483	$ —	$ 54,792

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The following is the condensed consolidated statement of income for the six months ended May 1, 2010 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 612,497	$ 33,057	$ 394,921	$ —	$1,040,475
Intercompany revenues	48,232	6,472	11,235	(65,939)	—
Total net revenues	660,729	39,529	406,156	(65,939)	1,040,475
Cost of revenues (1)	221,663	56,010	128,871	9,303	415,847
Intercompany cost of revenues	15,624	—	50,315	(65,939)	—
Total cost of revenues	237,287	56,010	179,186	(56,636)	415,847
Gross margin (loss) (1)	423,442	(16,481)	226,970	(9,303)	624,628
Operating expenses (1)	409,642	34,611	64,766	(9,303)	499,716
Intercompany operating expenses	(65,940)	(13,390)	79,330	—	—
Total operating expenses	343,702	21,221	144,096	(9,303)	499,716
Income (loss) from operations	79,740	(37,702)	82,874	—	124,912
Total other income (expense)	(51,971)	1,767	(797)	—	(51,001)
Income (loss) before income tax provision (benefit)	27,769	(35,935)	82,077	—	73,911
Income tax provision (benefit)	87,695	(92,061)	4,802	—	436
Net income (loss)	$ (59,926)	$ 56,126	$ 77,275	$ —	$ 73,475

(1) As adjusted due to the reclassification of system engineer costs from cost of revenues to sales and marketing expenses. See Note 1, "Basis of Presentation and Reclassification," of the Notes to Condensed Consolidated Financial Statements.

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

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by operating activities	$ 147,352	$ 3,067	$ 81,522	$ —	$231,941
Cash flows from investing activities:					
Purchases of short-term investments	—	(38)	—	—	(38)
Proceeds from maturities and sale of short-term investments	—	20	—	—	20
Purchases of property and equipment	(44,897)	(18)	(5,660)	—	(50,575)
Net cash used in investing activities	(44,897)	(36)	(5,660)	—	(50,593)
Cash flows from financing activities:					
Payment of principal related to the term loan	(98,640)	—	—	—	(98,640)
Payment of principal related to capital leases	(868)	—	—	—	(868)
Proceeds from issuance of common stock, net	47,388	—	—	—	47,388
Excess tax benefits or detriments from stock-based compensation	(1,044)	—	167	—	(877)
Net cash provided by (used in) financing activities	(53,164)	—	167	—	(52,997)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	1,227	—	1,227
Net increase in cash and cash equivalents	49,291	3,031	77,256	—	129,578
Cash and cash equivalents, beginning of period	23,455	6,907	303,622	—	333,984
Cash and cash equivalents, end of period	$ 72,746	$ 9,938	$ 380,878	$ —	$463,562

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The following is the condensed consolidated statement of cash flows for the six months ended May 1, 2010 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Foreign Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	$ (36,659)	$ 167,805	$ 5,683	$ —	$ 136,829
Cash flows from investing activities:					
Purchases of short-term investments	—	(24)	—	—	(24)
Proceeds from maturities and sale of short-term investments	—	1,788	—	—	1,788
Proceeds from sale of property	30,185	—	—	—	30,185
Purchases of property and equipment	(106,724)	(37)	(2,626)	—	(109,387)
Net cash provided by (used in) investing activities	(76,539)	1,727	(2,626)	—	(77,438)
Cash flows from financing activities:					
Payment of debt issuance costs related to the Senior Secured Notes	(3,002)	—	—	—	(3,002)
Payment of principal related to the revolving credit facility	(14,050)	—	—	—	(14,050)
Payment of principal related to the convertible subordinated debt	—	(172,500)	—	—	(172,500)
Payment of principal related to the term loan	(522,244)	—	—	—	(522,244)
Common stock repurchases	(20,003)	—	—	—	(20,003)
Proceeds from Senior Secured Notes	587,968	—	—	—	587,968
Proceeds from issuance of common stock, net	39,819	—	—	—	39,819
Excess tax benefits or detriments from stock-based compensation	63	—	—	—	63
Net cash provided by (used in) financing activities	68,551	(172,500)	—	—	(103,949)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	(2,402)	—	(2,402)
Net increase (decrease) in cash and cash equivalents	(44,647)	(2,968)	655	—	(46,960)
Cash and cash equivalents, beginning of period	74,509	5,748	253,936	—	334,193
Cash and cash equivalents, end of period	$ 29,862	$ 2,780	$ 254,591	$ —	$ 287,233

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

You should read the following discussion and analysis in conjunction with the condensed consolidated financial statements and notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and with Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report filed on Form 10-K with the Securities and Exchange Commission on December 17, 2010.

Overview

We are a leading supplier of end-to-end networking solutions and services for businesses and organizations of many types and sizes, including global enterprises, and service providers. Our business model is driven by our two key markets, namely our core Data Storage business, where we offer directors, switches, host bus adapters ("HBAs"), and server virtualization solutions, and our newer Ethernet business, which we acquired in December 2008 as part of our acquisition of Foundry Networks, Inc. ("Foundry"), where we offer modular and stackable 1 Gigabit Ethernet ("GbE"), 10 GbE, and 100 GbE solutions, converged network products, as well as application delivery, security and wireless solutions.

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

We continue to face challenges, some within and some outside our control, such as the uncertainty in the worldwide macroeconomic climate and its impact on IT spending patterns globally. While we do not believe the recent earthquake and tsunami in Japan had a significant immediate impact on our revenue or supply chain, we continue to monitor our business in Japan. We also continue to monitor the stability and health of other international markets, including China and Europe. We are cautious about the current global and country specific dynamics, including inflationary risks in China and the continuing sovereign debt risk in Europe, which may impact our business and that of our partners. While the diversification of our business model helps mitigate the effect of some of these challenges and we expect IT spending levels to generally rise in the long-term, it is generally difficult to offset short-term reductions of IT spending.

Going forward, we expect the number of Data Storage and Ethernet products we ship to fluctuate depending on the demand for our existing and recently introduced products, as well as the timing of product transitions by our OEM partners. We currently expect that average selling prices per port for our Data Storage and Ethernet products will likely decline at rates of low single digits for the third fiscal quarter of 2011.

We also plan to continue to focus on increasing operating cash flows, with which we intend to reduce our existing term loan, build cash balances and/or repurchase our Company's stock.

Results of Operations

Our results of operations for the three and six months ended April 30, 2011 and May 1, 2010 are reported in this discussion and analysis as a percentage of total net revenues, except for gross margin with respect to each segment, which is indicated as a percentage of the respective segment net revenues.

Revenues. Our revenues are derived primarily from sales of our Data Storage products, sales of our Ethernet products, and our service and support offerings related to those products.

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

	Three Months Ended					
	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Data Storage	$ 330,369	60.1%	$ 281,750	56.2%	$ 48,619	17.3%
Ethernet Products	128,659	23.4%	128,135	25.6%	524	0.4%
Global Services	90,869	16.5%	91,098	18.2%	(229)	(0.3)%
Total net revenues	$ 549,897	100.0%	$ 500,983	100.0%	$ 48,914	9.8%

	Six Months Ended					
	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Data Storage	$ 661,533	60.4%	$ 635,400	61.1%	$ 26,133	4.1%
Ethernet Products	254,785	23.2%	223,570	21.5%	31,215	14.0%
Global Services	179,596	16.4%	181,505	17.4%	(1,909)	(1.1)%
Total net revenues	$1,095,914	100.0%	$1,040,475	100.0%	$ 55,439	5.3%

The increase in total net revenues for the three months ended April 30, 2011 compared with the three months ended May 1, 2010 was primarily due to higher Data Storage revenues.

- The increase in Data Storage product revenues reflects an increase of 18.9% in the number of ports shipped and a mix shift from 4 Gb director and switch products to 8 Gb director and switch products, which carry a higher price per port, partially offset by a 1.3% decrease in average selling price per port;
- The slight increase in Ethernet Products revenues reflects relatively higher revenues from our enterprise and service provider customers, and implementation of initiatives to drive both immediate and long-term growth in our Ethernet business, which was partially offset by lower revenues from federal customers and a decrease in average selling price of our Ethernet Products of approximately 6.5%; and
- The slight decrease in Global Services revenues was a result of lower Data Storage support revenues during the period, primarily due to a larger impact from the new standard for revenue recognition that we adopted in the beginning of our fiscal year 2010 on a prospective basis. This was partially offset by an increase in Ethernet Products support revenues.

The increase in total net revenues for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 reflects higher sales of Data Storage and Ethernet Products, partially offset by lower revenues from our Global Services offerings.

- The increase in Data Storage product revenues reflects an increase of 8.0% in the number of ports shipped and a mix shift from 4 Gb director and switch products to 8 Gb director and switch products, which carry a higher price per port, partially offset by a 3.5% decrease in average selling price per port;
- The increase in Ethernet Products revenues reflects relatively higher revenues from our enterprise and service provider customers, and implementation of initiatives to drive both immediate and long-term growth in our Ethernet business, which offset the impact of lower pricing and lower revenues from federal customers; and
- The decrease in Global Services revenues was primarily a result of lower Data Storage support revenues during the period, which was primarily due to a larger impact from the new standard for revenue recognition that we adopted in the beginning of our fiscal year 2010 on a prospective basis.

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

	Three Months Ended					
	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
United States	$339,532	61.8%	$324,145	64.7%	$ 15,387	4.7%
Europe, the Middle East and Africa (1)	123,412	22.4%	114,257	22.8%	9,155	8.0%
Asia Pacific	56,557	10.3%	39,058	7.8%	17,499	44.8%
Japan	19,484	3.5%	15,790	3.2%	3,694	23.4%
Canada, Central and South America	10,912	2.0%	7,733	1.5%	3,179	41.1%
Total net revenues	$549,897	100.0%	$500,983	100.0%	$ 48,914	9.8%

(1) Includes net revenues of $57.2 million and $53.9 million for the three months ended April 30, 2011 and May 1, 2010 respectively, relating to the Netherlands.

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	Six Months Ended					
	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
United States	$ 664,351	60.6%	$ 661,353	63.6%	$ 2,998	0.5%
Europe, the Middle East and Africa (1)	263,555	24.1%	251,114	24.1%	12,441	5.0%
Asia Pacific	110,053	10.0%	79,489	7.7%	30,564	38.5%
Japan	36,425	3.3%	28,498	2.7%	7,927	27.8%
Canada, Central and South America	21,530	2.0%	20,021	1.9%	1,509	7.5%
Total net revenues	$1,095,914	100.0%	$1,040,475	100.0%	$ 55,439	5.3%

(1) Includes net revenues of $132.9 million and $127.9 million for the six months ended April 30, 2011 and May 1, 2010 respectively, relating to the Netherlands.

International revenues increased as a percentage of total net revenues for the three and six months ended April 30, 2011 compared with the three and six months ended May 1, 2010 primarily as a result of increased product volumes in Asia Pacific and Japan. Revenues are attributed to geographic areas based on where our products are shipped. However, certain OEM partners take possession of our products domestically and then distribute these products to their international customers. Because we account for all of those OEM revenues as domestic revenues, we cannot be certain of the extent to which our domestic and international revenue mix is impacted by the practices of our OEM partners, but we believe that international revenues comprise a larger percentage of our total net revenues than the attributed revenues may indicate.

A significant portion of our revenue is concentrated among a relatively small number of OEM customers. For the three months ended April 30, 2011, four customers each represented 10% or more of our total net revenues for a combined total of 53% of our total net revenues. For the three months ended May 1, 2010, three customers each represented 10% or more of our total net revenues for a combined total of 44% of our total net revenues. We expect that a significant portion of our future revenues will continue to come from sales of products to a relatively small number of OEM partners and to the U.S. government or individual agencies within the U.S. government through our distributors. Therefore, the loss of, or a decrease in the level of sales to, or a change in the ordering pattern of any one of these customers could seriously harm our financial condition and results of operations.

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

	Three Months Ended					
	April 30, 2011	% of Net Revenues	May 1, 2010 (1)	% of Net Revenues	Increase/ (Decrease)	% Points Change
Data Storage	$232,538	70.4%	$193,038	68.5%	$ 39,500	1.9%
Ethernet Products	55,415	43.1%	55,805	43.6%	(390)	(0.5)%
Global Services	42,189	46.4%	46,647	51.2%	(4,458)	(4.8)%
Total gross margin	$330,142	60.0%	$295,490	59.0%	$ 34,652	1.0%

	Six Months Ended					
	April 30, 2011	% of Net Revenues	May 1, 2010 (1)	% of Net Revenues	Increase/ (Decrease)	% Points Change
Data Storage	$463,230	70.0%	$433,105	68.2%	$ 30,125	1.8%
Ethernet Products	104,397	41.0%	99,046	44.3%	5,351	(3.3)%
Global Services	83,659	46.6%	92,477	51.0%	(8,818)	(4.4)%
Total gross margin	$651,286	59.4%	$624,628	60.0%	$ 26,658	(0.6)%

(1) The three and six months ended May 1, 2010 is as adjusted due to the reclassification of system engineer costs from cost of revenues to sales and marketing expenses. See Note 1, "Basis of Presentation and Reclassification," of the Notes to Condensed Consolidated Financial Statements.

For the three months ended April 30, 2011 compared with the three months ended May 1, 2010, total gross margin increased in absolute dollars and percentage primarily due to an increase in margins on Data Storage products, and an increased mix of Data Storage revenue, which carry a higher overall gross margin than our Ethernet Products and our Global Services offerings. This was partially offset by a decrease in margins on Ethernet Products and Global Services offerings.

Gross margin percentage by reportable segment increased or decreased for the three months ended April 30, 2011 compared with the three months ended May 1, 2010 primarily due to the following factors (the percentages below reflect the impact on gross margin):

- Data Storage gross margins relative to net revenues increased due to a 1.3% decrease in product costs relative to net revenues, which more than offset the decline in average selling price. Additionally, amortization of intangible assets related to the McDATA acquisition decreased by 0.2% and other manufacturing costs relative to net revenues decreased by 0.4%;
- Ethernet Products gross margins relative to net revenues decreased due to a slight 0.1% increase in product costs relative to net revenues which includes the impact of lower average selling prices and shifting product mix, and a 0.4% increase in other manufacturing costs primarily from higher spending related to new product introductions; and
- Global Services gross margins relative to net revenues decreased due to a 4.5% increase in service and support costs, primarily from increased headcount. Additionally, stock-based compensation relative to net revenues increased 0.3%.

For the six months ended April 30, 2011 compared with the six months ended May 1, 2010, total gross margin increased in absolute dollars primarily due to higher revenues. Total gross margin percentage however decreased primarily due to lower margins on Ethernet Products and Global Services, as well as a higher mix of Ethernet Products revenue, which carries a lower overall gross margin. This was partially offset by an increase in Data Storage gross margins.

Gross margin percentage by reportable segment increased or decreased for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 primarily due to the following factors (the percentages below reflect the impact on gross margin):

- Data Storage gross margins relative to net revenues increased due to a 0.8% decrease in product costs relative to net revenues, which more than offset the decline in average selling price. Additionally, amortization of intangible assets related to the McDATA acquisition decreased by 0.6% and other manufacturing costs relative to net revenues decreased by 0.4%;
- Ethernet Products gross margins relative to net revenues decreased due to a 3.0% increase in product costs relative to net revenues which includes the impact of lower average selling prices and shifting product mix, and a 1.4% increase in other manufacturing costs primarily from higher spending related to new product introductions. This was partially offset by a 1.1% decrease in amortization of intangible assets related to the Foundry acquisition; and
- Global Services gross margins relative to net revenues decreased due to a 4.1% increase in service and support costs, primarily from increased headcount and inventory write-downs, which offset the impact of a one-time settlement of a litigation matter during the first fiscal quarter of 2010. Additionally, stock-based compensation relative to net revenues increased 0.3%.

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 Data Storage and Ethernet products will decline at rates of low single digits for the third fiscal quarter of 2011, 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 by reducing our product and manufacturing operations costs but may not be able to reduce these costs quickly or in sufficient amounts to offset the selling price declines.

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

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$22,530	4.1%	$30,146	6.0%	$ (7,616)	(25.3)%
Six months ended	$42,436	3.9%	$51,668	5.0%	$ (9,232)	(17.9)%

The decrease in stock-based compensation expense for the three and six months ended April 30, 2011 compared with the three and six months ended May 1, 2010 was primarily due to the decrease in Foundry-related deferred compensation and lower ESPP expenses, which was partially offset by higher expenses from an increase in new hire equity grants.

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

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

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$ 91,941	16.7%	$ 89,351	17.8%	$ 2,590	2.9%
Six months ended	$183,349	16.7%	$179,433	17.2%	$ 3,916	2.2%

R&D expenses increased for the three months ended April 30, 2011 compared with the three months ended May 1, 2010 due to the following (in thousands):

	$ Change 2010 to 2011 Quarter-to-Date ("QTD")
Salaries and wages	$ 7,061
Outside services	1,465
Depreciation and amortization	1,318
The increase in R&D expenses was partially offset by the decrease in the following:	
Stock-based compensation	(3,822)
Nonrecurring engineering expenses	(2,563)
Various individually insignificant items	(869)
Total change	$ 2,590

Salaries and wages increased primarily due to increased headcount. Outside services increased primarily due to projects related to our new Ethernet product offerings. Depreciation and amortization increased primarily due to the build-up of our development and testing labs to support continued development of new and enhanced products. Nonrecurring engineering expenses decreased primarily due to lower prototype costs and a decrease in chip design expenses.

R&D expenses increased for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 due to the following (in thousands):

	$ Change 2010 to 2011 Year-to-Date ("YTD")
Salaries and wages	$ 8,462
Outside services	3,560
Depreciation and amortization	2,355
Other facility expenses	1,352
Various individually insignificant items	196
The increase in R&D expenses was partially offset by the decrease in the following:	
Stock-based compensation	(5,722)
Nonrecurring engineering expenses	(3,375)
Sustaining engineering expenses allocated to cost of revenues	(2,912)
Total change	$ 3,916

Salaries and wages and other facility expenses increased primarily due to increased headcount. Outside services increased primarily due to projects related to our new Ethernet product offerings. Depreciation and amortization increased primarily due to the continued build-up of our development and testing labs. Nonrecurring engineering expenses decreased primarily due to lower prototype costs and a decrease in chip design expenses. Sustaining engineering expenses allocated to cost of revenues increased primarily as a result of new Ethernet products launched, partially offsetting the increase in R&D expenses.

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

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

	April 30, 2011	% of Net Revenues	May 1, 2010 (1)	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$156,979	28.5%	$132,019	26.4%	$24,960	18.9%
Six months ended	$309,646	28.3%	$254,079	24.4%	$55,567	21.9%

(1) The three and six months ended May 1, 2010 is as adjusted due to the reclassification of system engineer costs from cost of revenues to sales and marketing expenses. See Note 1, "Basis of Presentation and Reclassification," of the Notes to Condensed Consolidated Financial Statements.

Sales and marketing expenses increased for the three months ended April 30, 2011 compared with the three months ended May 1, 2010 due to the following (in thousands):

	$ Change 2010 to 2011 QTD
Salaries and wages	$ 18,278
Other marketing expenses	3,850
Travel expenses	2,452
Expenses related to IT, facilities and other shared functions	2,493
Other facility expenses	1,207
Various individually insignificant items	204
The increase in sales and marketing expenses was partially offset by the decrease in the following:	
Stock-based compensation	(3,524)
Total change	$ 24,960

Salaries and wages, travel expenses, expenses related to IT, facilities and other shared functions and other facility expenses increased primarily due to headcount growth. Other marketing expenses increased primarily due to our new marketing awareness campaign launched in second fiscal quarter of 2011.

Sales and marketing expenses increased for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 due to the following (in thousands):

	$ Change 2010 to 2011 YTD
Salaries and wages	$ 41,108
Expenses related to IT, facilities and other shared functions	5,347
Travel expenses	4,675
Outside services	2,959
Other marketing expenses	2,797
Other facility expenses	1,687
Depreciation and amortization	1,338
Various individually insignificant items	88
The increase in sales and marketing expenses was partially offset by the decrease in the following:	
Stock-based compensation	(4,432)
Total change	$ 55,567

Salaries and wages, expenses related to IT, facilities and other shared functions, travel expenses, other facility expenses and depreciation and amortization increased primarily due to headcount growth. Outside services increased primarily due to an increase in consulting expenses related to our business model and growth strategy. Other marketing expenses increased primarily due to our new marketing awareness campaign launched in second fiscal quarter of 2011.

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

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

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$18,469	3.4%	$15,941	3.2%	$ 2,528	15.9%
Six months ended	$36,559	3.3%	$32,180	3.1%	$ 4,379	13.6%

G&A expenses increased for the three months ended April 30, 2011 compared with the three months ended May 1, 2010 due to the following (in thousands):

	$ Change 2010 to 2011 QTD
Depreciation and amortization	$ 4,807
Salaries and wages	3,355
Outside services	2,144
The increase in general and administrative expenses was partially offset by the decrease in the following:	
Other facility expenses	(4,261)
Expenses related to IT, facilities and other shared functions allocated from G&A	(2,231)
Various individually insignificant items	(1,286)
Total change	$ 2,528

Depreciation and amortization increased primarily due to additional furniture and equipment and depreciation related to our new campus that was completed in the third fiscal quarter of 2010. Salaries and wages increased due to headcount growth. Outside services increased primarily due to higher legal expenses related to ongoing disputes and an increase in consulting services related to information systems projects. Other facility expenses decreased primarily due to decrease in rent and related expenses after moving into the Company's new campus. The expenses related to IT, facilities and other shared functions allocated from G&A decreased primarily due to an increase in the amount of total expenses allocated to other department due to headcount growth in those departments and increased allocation of depreciation and amortization due to completion of the new campus in the third fiscal quarter of 2010.

G&A expenses increased for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 due to the following (in thousands):

	$ Change 2010 to 2011 YTD
Depreciation and amortization	$ 8,482
Salaries and wages	4,983
Outside services	3,272
The increase in general and administrative expenses was partially offset by the decrease in the following:	
Expenses related to IT, facilities and other shared functions allocated from G&A	(6,260)
Other facility expenses	(5,984)
Various individually insignificant items	(114)
Total change	$ 4,379

Depreciation and amortization increased primarily due to additional furniture and equipment and depreciation related to our new campus that was completed in the third fiscal quarter of 2010. Salaries and wages increased due to headcount growth. Outside services increased primarily due to higher legal expenses related to ongoing disputes and an increase in consulting services related to information systems projects. The expenses related to IT, facilities and other shared functions allocated from G&A decreased primarily due to an increase in the amount of total expenses allocated to other department due to headcount growth in those departments and increased allocation of depreciation and amortization due to completion of the new campus in the third fiscal quarter of 2010. Other facility expenses decreased primarily due to decrease in rent and related expenses after moving into the Company's new campus.

Legal fees associated with indemnification obligations and other related costs, net. Legal fees associated with indemnification obligations and other related costs, net, were immaterial for the three and six months ended April 30, 2011 and May 1, 2010. We expect the Company's obligations relating to stock option backdating and related matters have substantially ended.

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

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$15,023	2.7%	$16,190	3.2%	$ (1,167)	(7.2)%
Six months ended	$31,213	2.8%	$33,242	3.2%	$ (2,029)	(6.1)%

During the three and six months ended April 30, 2011 and May 1, 2010, we recorded amortization of intangible assets related to the acquisitions of McDATA, Silverback Systems, Inc., Strategic Business Systems, Inc. and Foundry. The decrease in amortization of intangible assets for the three and six months ended April 30, 2011 compared with the three and six months ended May 1, 2010 was primarily due to the full amortization of a portion of the McDATA related intangible assets.

Acquisition and integration costs. Acquisition and integration costs are summarized as follows (in thousands, except percentages):

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Six months ended	$ —	— %	$ 204	— %	$ (204)	(100.0)%

For the six months ended May 1, 2010, we recorded acquisition and integration costs primarily for consulting services and other professional fees in connection with our integration of Foundry. We did not incur any acquisition and integration costs during the three and six months ended April 30, 2011 and three months ended May 1, 2010.

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

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$ 27	0.0%	$(903)	(0.2)%	$ 930	103.0%
Six months ended	$ 376	0.0%	$(831)	(0.1)%	$ 1,207	145.2%

For the three and six months ended April 30, 2011 compared with the three and six months ended May 1, 2010, the increase in interest and other income (loss), net, was primarily due to foreign exchange gains recognized during the three and six months ended April 30, 2011 compared to foreign exchange losses during the three and six months ended May 1, 2010. Additionally, beginning in the first fiscal quarter of 2011, gains or losses relating to the effective portion of foreign currency cash flow derivatives are recorded in cost of revenues and operating expenses to match the underlying exposure to the related hedge results (see Note 10, "Derivative Instruments and Hedging Activities" of the Notes to the Condensed Consolidated Financial Statements). In the prior period, net losses recorded in interest and other income (loss), net were not material, and have not been reclassified.

Interest expense. Interest expense primarily represents the interest cost associated with our term loan, Senior Secured Notes and convertible subordinated debt (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). Interest expense is summarized as follows (in thousands, except percentages):

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$(20,745)	(3.8)%	$(19,522)	(3.9)%	$ 1,223	6.3%
Six months ended	$(42,291)	(3.9)%	$(41,595)	(4.0)%	$ 696	1.7%

Interest expense increased for the three and six months ended April 30, 2011 compared with the three and six months ended May 1, 2010 primarily as a result of the capitalization of interest cost in connection with the development of our campus during the three months and six months ended May 1, 2010, partially offset by a reduction in debt, with the Company electing to make accelerated payments towards the principal of the term loan and the retirement of the 2.25% Notes on February 16, 2010. During the six months ended April 30, 2011, the Company paid $98.6 million toward the principal of the Senior Secured Credit Facility, $80.0 million of which were voluntary prepayments. During the fiscal year 2010, the Company paid $583.0 million toward the principal of the Senior Secured Credit Facility, $560.0 million of which were voluntary prepayments. The construction of the campus was completed in the third fiscal quarter of 2010, and accordingly no interest was capitalized subsequent to that quarter.

Gain (loss) on sale of investments and property, net. Gain (loss) on sale of investments and property, net, is summarized as follows (in thousands, except percentages):

	April 30, 2011	% of Net Revenues	May 1, 2010	% of Net Revenues	Increase/ (Decrease)	% Change
Three months ended	$ (11)	(0.0)%	$ 253	0.1%	$ (264)	(104.3)%
Six months ended	$ (17)	(0.0)%	$(8,575)	(0.8)%	$ (8,558)	(99.8)%

Gain (loss) on sale of investments and property, net was immaterial for the three months ended April 30, 2011 and May 1, 2010. For the six months ended April 30, 2011 compared with the six months ended May 1, 2010, the decrease in loss on sale of investments and property, net, was primarily due to an immaterial loss on sale of investments net, for the six months ended April 30, 2011 as compared to an $8.7 million loss on the sale of owned property in San Jose during the six months ended May 1, 2010, to an unrelated third party.

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Income tax provision (benefit)	$ (612)	$(840)	$(6.329)	$ 436
Effective tax rate	(2.3)%	(3.9)%	(13.1)%	0.6%

We recorded a tax benefit for the three and six months ended April 30, 2011 compared with a tax benefit for the three months and a tax expense for the six months ended May 1, 2010 primarily due to a discrete benefit from the retroactive reinstatement of the federal research and development tax credit provision from January 1, 2010 to December 31, 2011, as a result of the Tax Relief Act enacted on December 17, 2010, and reserve releases from the settlement with the IRS regarding the Company’s fiscal year 2007 and 2008 audit (see Note 13, “Income Taxes,” of the Notes to Condensed Consolidated Financial Statements).

Based on our current forecasted results, we expect a tax benefit for fiscal year 2011 compared to tax expense for fiscal year 2010. However, factors such as the mix of Ethernet versus Data Storage products and domestic versus international profits could affect our tax expense. 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. In addition, the Company does not forecast discrete events, such as a settlement of tax audits with governmental authorities due to their inherent uncertainty. Such settlements could materially impact the Company’s tax expense. Given that the tax rate is driven by several different factors, it is not possible to estimate our future tax rate with a high degree of certainty.

Our income tax provision could change from either effects of changing tax laws and regulations, or differences in international revenues and earnings from those historically achieved, a factor largely influenced by the buying behavior of our OEM and channel partners.

The IRS and other tax authorities regularly examine our income tax returns. For additional discussion, see Note 13, “Income Taxes,” of the Notes to Condensed Consolidated Financial Statements. We are currently undergoing an IRS audit for fiscal years 2004 through 2008, for which we expect to resolve fiscal years 2004 through 2006 during the next twelve months. As such, after we reach settlement with the IRS, we expect to record a corresponding adjustment to our unrecognized tax benefits. Due to availability of net operating losses and credits, the IRS audit settlement is not expected to result in a significant tax payment. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between $0 and $16 million in the next twelve months.

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

Liquidity and Capital Resources

	April 30, 2011	October 30, 2010	Increase/ (Decrease)
		(in thousands)	
Cash and cash equivalents	$463,562	$333,984	$129,578
Short-term investments	2,027	1,998	29
Total	$465,589	$335,982	$129,607
Percentage of total assets	12%	9%	

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

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

Financial Condition

Cash and cash equivalents and short-term investments as of April 30, 2011 increased by $129.6 million over the balance as of October 30, 2010 primarily due to increased cash from operating activities and decreased purchases of property and equipment due to completion of campus construction during fiscal year 2010, partially offset by accelerated payments towards the principal of the term loan.

For the six months ended April 30, 2011, we generated $231.9 million in cash from operating activities, which was higher than our net income for the same period primarily as a result of adjustments to net income for non-cash items related to depreciation and amortization and stock-based compensation expense, in addition to decrease in account receivables and increases in accrued employee compensation and deferred revenues. This was partially offset by decreases in accounts payable and other accrued liabilities and increase in inventory.

Accounts receivable days sales outstanding, which is a measure of the average number of days that a company takes to collect revenue after a sale has been made, for the six months ended April 30, 2011 was 50 days, compared with 52 days for the six months ended May 1, 2010 driven primarily due to the timing of revenue. A majority of our accounts receivable balance is derived from sales to OEM partners in the computer storage and server industry. As of April 30, 2011, three customers accounted for 17%, 14% and 11%, respectively, of total accounts receivable. As of October 30, 2010, three customers accounted for 17%, 14% and 10%, respectively, of total accounts receivable. We perform ongoing credit evaluations of our customers and generally do not require collateral or security interests on accounts receivable balances. We have established reserves for credit losses, sales allowances, and other allowances. While we have not experienced material credit losses in any of the periods presented, there can be no assurance that we will not experience material credit losses in the future.

Net cash used in investing activities for the six months ended April 30, 2011 totaled $50.6 million and was primarily the result of $50.6 million in purchases of property and equipment.

Net cash used in financing activities for the six months ended April 30, 2011 totaled $53.0 million and was primarily the result of payment of principal related to the term loan of $98.6 million, partially offset by proceeds from the issuance of common stock from ESPP purchases and stock option exercises of $47.4 million.

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

Six Months Ended April 30, 2011 Compared to Six Months Ended May 1, 2010

Operating Activities. Net cash provided by operating activities increased for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 by $95.1 million. The increase was primarily due to increased accounts receivable collections and decreased payment with respect to accounts payable and accrued employee compensation, partially offset by a decrease in net income during the six months ended April 30, 2011.

Investing Activities. Net cash used in investing activities decreased for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 by $26.8 million. The decrease was primarily due to lower purchases of property and equipment in the six months ended April 30, 2011, partially offset by proceeds of $30.2 million from sale of property in the first fiscal quarter of 2010.

Financing Activities. Net cash used in financing activities decreased for the six months ended April 30, 2011 compared with the six months ended May 1, 2010 by $51.0 million. The decrease was primarily due to higher net debt payments and common stock repurchases during the six months ended May 1, 2010 as well as increased proceeds from issuance of common stock during the six months ended April 30, 2011.

Liquidity

Manufacturing and Purchase Commitments. We have manufacturing arrangements with contract manufacturers under which we provide twelve-month product forecasts and place purchase orders in advance of the scheduled delivery of products to our customers. Our purchase commitments reserve reflects our estimate of purchase commitments we do not expect to consume in normal operations within the next twelve months, in accordance with our policy (see Note 9, "Commitments and Contingencies," of the Notes to Condensed Consolidated Financial Statements).

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

The IRS and other tax authorities regularly examine our income tax returns (see Note 13, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements). We believe we have adequate reserves for all open tax years.

Senior Secured Credit Facility. A portion of our outstanding debt is related to the financing of the Foundry acquisition, the costs and expenses related to the merger, and the ongoing working capital and other general corporate purposes of the combined organization after consummation of the merger (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). During the six months ended April 30, 2011, the Company paid $98.6 million towards the principal of the Senior Secured Credit Facility, $80.0 million of which were voluntary prepayments. We have the following resources available to obtain short-term or long-term financing, if we need additional liquidity, as of April 30, 2011 (in thousands):

	Original Amount Available	April 30, 2011	
		Used	Available
Revolving credit facility	$ 125,000	$—	$125,000
Total	$ 125,000	$—	$125,000

Senior Secured Notes. In January 2010, we issued $600 million of long-term fixed rate notes and used the proceeds to pay down a substantial portion of the outstanding term loan, with the remaining net proceeds used to retire the convertible subordinated debt due on February 15, 2010 (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements).

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

	Three Months Ended		Six Months Ended	
	April 30, 2011	May 1, 2010	April 30, 2011	May 1, 2010
Trade receivables sold under factoring agreement	$ 20,720	$ 19,469	$ 29,953	$ 19,469

Under the terms of the factoring agreement, the remaining available amount of the factoring facility as of April 30, 2011 is $29.3 million.

Contractual Obligations

The following table summarizes our contractual obligations, including interest expense, and commitments as of April 30, 2011 (in thousands):

	Total	Less than 1 Year	1—3 Years	3—5 Years	More than 5 Years
Contractual Obligations:					
Term loan (1)	$ 283,768	$ 61,180	$222,588	$ —	$ —
Senior Secured Notes due 2018 (1)	439,947	25,666	39,750	39,750	334,781
Senior Secured Notes due 2020 (1)	486,478	26,634	41,250	41,250	377,344
Non-cancelable operating leases (2)	106,865	27,534	33,993	27,081	18,257
Non-cancelable capital leases	8,635	2,221	4,441	1,973	—
Purchase commitments, gross (3)	249,375	249,375	—	—	—
Total contractual obligations	$1,575,068	$392,610	$342,022	$110,054	$730,382
Other Commitments:					
Standby letters of credit	$ 534	$ n/a	$ n/a	$ n/a	$ n/a
Unrecognized tax benefits and related accrued interest (4)	$ 149,366	$ n/a	$ n/a	$ n/a	$ n/a

(1) Amount reflects total anticipated cash payments, including anticipated interest payments.
(2) Amount excludes contractual sublease income of $38.1 million, which consists of $6.4 million to be received in less than one year, $13.5 million to be received in one to three years, $14.1 million to be received in three to five years and $4.1 million to be received in more than five years.
(3) Amount reflects total gross purchase commitments under our manufacturing arrangements with third-party contract manufacturers. Of this amount, we have accrued $2.4 million for estimated purchase commitments that we do not expect to consume in normal operations within the next twelve months, in accordance with our policy.
(4) As of April 30, 2011, we had a liability for unrecognized tax benefits of $145.9 million and a net accrual for the payment of related interest and penalties of $3.5 million. We expect to resolve the fiscal years 2004 through 2006 IRS audit during the next twelve months. As such, after we reach settlement with the IRS, we expect to record a corresponding adjustment to our unrecognized tax benefits. Due to availability of net operating losses and credits, the IRS audit settlement is not expected to result in a significant tax payment. Given the uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the range of estimated potential decreases in underlying uncertain tax positions is between $0 and $16 million in the next twelve months.

Share Repurchase Program. As of November 29, 2007, our Board of Directors authorized a total of $800.0 million for the repurchase of our common stock. The purchases may be made, from time to time, in the open market or by privately negotiated transactions and will be funded from available working capital. The number of shares to be purchased and the timing of purchases will be based on the level of our cash balances, general business and market conditions, our debt covenants and other factors, including alternative investment opportunities. Approximately $389.1 million remains authorized for future repurchases under this program as of April 30, 2011. We are subject to certain covenants relating to our borrowings that restrict the amount of our Company's shares that we can repurchase. As of April 30, 2011, we can repurchase up to an additional $75 million of our Company's shares under the terms of our Senior Secured Credit Facility, provided our consolidated senior secured leverage ratio as defined in the credit agreement is under 2.00. We made no repurchases for the six months ended April 30, 2011 due to prioritizing our use of cash for debt repayment.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate material relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or for other contractually narrow or limited purposes. As of April 30, 2011, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Estimates

There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our condensed consolidated financial statements during the six months ended April 30, 2011 as compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 30, 2010.

Impairment of goodwill and intangible assets. Goodwill is generated as a result of business combinations. We conduct our goodwill impairment test annually, as of the first day of the second fiscal quarter, or whenever events or changes in facts and circumstances indicate that the fair value of the reporting unit may be less than its carrying amount. Events which might indicate impairment include, but are not limited to, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on our customer base, material negative changes in relationships with significant customers, and/or a significant decline in our stock price for a sustained period. Consistent with prior years, we performed our annual goodwill impairment test using measurement data as of the first day of the second fiscal quarter of 2011.

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

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

To determine the reporting unit's fair values, we use the income approach, the market approach, or a combination thereof. The income approach provides an estimate of fair value based on discounted expected future cash flows. The market approach provides an estimate of the fair value of our four reporting units using various prices or market multiples applied to the reporting unit's operating results and then applying an appropriate control premium. During our fiscal year 2011 annual goodwill impairment test under the first step, we used a combination of approaches to estimate reporting units' fair values. We believed that at the time of impairment testing performed in second fiscal quarter of 2011, the income approach and the market approach were equally representative of a reporting unit's fair value.

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

- Our operating forecasts;
- Revenue growth rates; and
- Risk-commensurate discount rates and costs of capital.

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

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

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

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

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

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

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

We are exposed to changes in interest rates as a result of our borrowings under our term loan. As of April 30, 2011, the weighted-average interest rate on the term loan was 7.0%, which represents the minimum interest rate under the credit agreement. The current market rates are such that a 1% increase in market rates would still result in a 7.0% interest rate on the term loan. However, based on outstanding principal indebtedness of $252.3 million under our term loan as of April 30, 2011, if market rates average 1% above the interest rate floor over the remaining term of the debt, which would result from an increase in market rates of approximately 3.3%, our interest expense would increase by approximately $4.5 million over the remaining term of the debt.

Our cash and cash equivalents 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 Company did not have any material investments as of April 30, 2011 that is sensitive to changes in interest rates.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies, of which the most significant to our operations for the six months ended April 30, 2011 were the Chinese yuan, the euro, the Japanese yen, the British pound, the Singapore dollar and the Swiss franc. We are primarily exposed to foreign currency fluctuations related to operating expenses and cost of inventory components denominated in currencies other than the U.S. dollar. As such, we benefit from a stronger U.S. dollar and may be adversely affected by a weaker U.S. dollar relative to the foreign currency. We use foreign currency forward contracts designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted operating expenses denominated in currencies other than the U.S. dollar. We recognize the gains and losses on foreign currency forward contracts in the same period as the remeasurement losses and gains of the related foreign currency denominated exposures.

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

Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures if 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 April 30, 2011, we held $69.6 million in cash flow derivative instruments. The maximum length of time over which we are hedged as of April 30, 2011 is through January 10, 2012.

We have performed a sensitivity analysis as of April 30, 2011, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analysis covers all of our foreign currency contracts offset by the underlying exposures. The foreign currency exchange rates we used were based on market rates in effect at April 30, 2011. The sensitivity analysis indicated that a hypothetical 10% adverse movement in foreign currency exchange rates would not result in a material foreign exchange loss as of April 30, 2011.

Equity Price Risk

We had no investments in publicly traded equity securities as of April 30, 2011. The aggregate cost of our equity investments in non-publicly traded companies was $7.0 million as of April 30, 2011. We monitor our equity investments for impairment on a periodic basis. In the event that the carrying value of the equity investment exceeds its fair value, and we determine the decline in value to be other-than-temporary, we reduce the carrying value to its current fair value. Generally, we do not attempt to reduce or eliminate our market exposure on these equity securities. We do not purchase our equity securities with the intent to use them for speculative purposes.

Our common stock is quoted on the NASDAQ Global Select Market under the symbol “BRCD.” On April 29, 2011, the last business day of our second fiscal quarter of 2011, the last reported sale price of our common stock on the NASDAQ Global Select Market was $6.25 per share.

Item 4. Controls and Procedures

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

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

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

(b) *Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting that occurred during the quarter ended April 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Disclosure Controls and Procedures.

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

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

Information set forth in the Legal Proceedings portion of Note 9, "Commitments and Contingencies," of the Notes to Condensed Consolidated Financial Statements in Part 1, Item 1 of this Form 10-Q is incorporated herein by reference.

Item 1A. Risk Factors

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

The networking market is increasingly competitive. While Cisco maintains a dominant position in the Ethernet networking market, other companies have strengthened their networking portfolio through acquisitions, including Oracle's acquisition of Sun Microsystems, HP's acquisition of 3Com, and IBM's acquisition of Blade Network Technologies. Both HP and IBM are important OEM partners for Brocade in the Fibre Channel switching market, yet also are competitive with Brocade in other respects. Other competitors in the Ethernet networking market include Arista Networks, Alcatel-Lucent, Enterasys Networks, Inc., Extreme Networks, Inc., F5 Networks, Inc., Force10 Networks, Inc., Huawei Technologies Co. Ltd., and Juniper Networks, Inc.

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

The above-referenced acquisitions and business partnerships demonstrate the increasingly complex nature of relationships within the networking industry, especially as the IT industry migrates to cloud computing models. This trend has led the networking industry to introduce new solutions and technology architectures to support cloud computing. Brocade calls this category "Ethernet fabrics" and has introduced a new solution portfolio through the Brocade VDX 6720 Data Center Switch and the Brocade Virtual Cluster Switching (VCS) software. Brocade's competitors also recently introduced new products focused on cloud computing such as Juniper Networks and its QFabric architecture. Other examples include Arista Networks, Avaya, Alacatel Lucent, Cisco and Force10 Networks who have all recently introduced solutions targeted at cloud computing users.

Some of these competitors have greater market leverage, longer operating histories, greater financial, technical, sales, marketing and other resources, more name recognition and larger installed customer bases. Brocade's competitors could also adopt more aggressive pricing policies than Brocade. Brocade believes that competition based on price may become more aggressive than it has traditionally experienced. As a result of these factors, Brocade's competitors could also devote greater resources to the development, promotion and sale of their products than Brocade and, as a result, may 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.

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

Brocade storage area networking ("SAN") business depends on recurring purchases from a limited number of large OEM partners for a substantial portion of its revenues. As a result, these large OEM partners have a significant influence on Brocade's quarterly and annual financial results. For fiscal years 2010, 2009 and 2008, the same three customers each represented 10% or more of Brocade's total net revenues. Brocade's agreements with its OEM partners are typically cancelable, non-exclusive, have no minimum purchase requirements and have no specific timing requirements for purchases. Brocade's OEM partners could also elect to eliminate, reduce, or rebalance the amount they purchase from Brocade and/or increase the amount purchased from Brocade's competitors or introduce their own technology. Also, one or more of Brocade's OEM partners could elect to consolidate or enter into a strategic partnership with one of Brocade's competitors, which could reduce or eliminate Brocade's future revenue opportunities with that OEM partner. Brocade anticipates that a significant portion of its revenues and operating results from its SAN business will continue to depend on sales to a relatively small number of OEM partners. The loss of any one significant OEM partner, or a decrease in the level of sales to any one significant OEM partner, or unsuccessful quarterly negotiation on key terms, conditions or timing of purchase orders placed during a quarter, would likely cause serious harm to Brocade's business and financial results.

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

Brocade offers its products through new and expanded channels, including through resellers, distributors and direct, and its Ethernet products through OEMs, including IBM and Dell. However, these new and expanded channels may not generate much, if any, revenue opportunities for Brocade. Offerings through new channels may also require Brocade to make certain significant upfront or ongoing investments, such as Brocade's recent increased investments in sales resources and the hiring of incremental new sales persons focused primarily on Brocade's Ethernet networking products. These additional costs may not be recovered or may not provide the desired return on investment if the anticipated benefits are not ultimately successful. These costs may also be larger than anticipated if the expenses associated with this new channels strategy are greater than planned. If Brocade cannot successfully expand its sales channels, Brocade may fail to maintain or grow its business, which would negatively impact its financial results.

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

The loss or delay of continued orders from any of Brocade's more significant customers, such as the U.S. government or individual agencies within the U.S. government, or companies within the financial services, education and health sectors, could also cause its revenue and profitability to suffer. For example, if Brocade is unable to offer qualified products to such government customers due to regulations and requirements with respect to country of origin designation, or if Brocade experiences governmental procurement delays due to the timing of approval of the federal budget, budget reductions, or other reasons, Brocade's revenue and operating results could be negatively impacted. In addition, a change in the mix of Brocade's customers, or a change in the mix of direct and indirect sales, could adversely affect its revenue and gross margins.

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

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

Examples of such technological developments include adoption of network attached storage and Internet Small Computer System Interface ("iSCSI") in storage networks, which may displace existing solutions in actual customer implementations and may erode the total addressable market ("TAM") for Fibre Channel products. Brocade recently introduced its newest portfolio of Fibre Channel switching products that support the new 16 Gigabits per second (Gbps) technology. The transition to this new Fibre Channel technology may be negatively impacted if customers accelerate their adoption of alternative storage networking technologies.

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

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

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

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

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

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

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

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

The average selling price for Brocade's products has declined in the past, and Brocade expects it to continue to decline in the future as a result of changes in competitive pricing pressure, broader macroeconomic factors, product mix, enhanced marketing programs, increased sales discounts, new product introductions by Brocade or Brocade's competitors, the entrance of new competitors and other factors. Brocade expects that average selling prices per port for Data Storage products will continue to decline at rates consistent with historical rates of low single digits per quarter, and that average selling prices per port for Brocade's Ethernet products will decline at a rate in the low- to mid-single digits; however, average selling prices could decline much faster. Price declines may also increase as competitors ramp up product releases that compete with Brocade's products. Furthermore, if economic conditions deteriorate and drive a more cautious capital spending environment in the technology sector, both Brocade and its competitors could pursue more aggressive pricing strategies in an effort to maintain or seek to increase sales levels. If Brocade is unable to offset any negative impact from the above factors on the average selling price of Brocade's products by increasing the volume of products shipped or reducing product manufacturing costs, Brocade's total revenues and gross margins will be negatively impacted.

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

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

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

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

In addition, although the purchase orders placed with Brocade's contract manufacturers are cancelable in certain circumstances, 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 could incur unanticipated expenses, including write-downs for excess and/or obsolete inventory, and Brocade's business and financial results could be negatively affected. In the past, Brocade has experienced delays in shipments of its Ethernet products from its contract manufacturers and OEMs, which in turn delayed product shipments to its customers. Brocade may in the future experience similar delays or other problems, such as insufficient quantity of product, acquisition by a competitor or loss of business from one or more of its OEMs, any of which could harm Brocade's business and operating results.

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

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

Brocade has determined that more-likely-than-not it will realize its deferred tax assets based on positive evidence of its history of profits and projections of future income. Accordingly, the Company only applies a valuation allowance on the deferred tax assets relating to capital loss and investment loss carryforwards. In the event future income by jurisdiction is less than what is currently projected, Brocade may be required to apply a valuation allowance to these deferred tax assets in jurisdictions where realization of such assets are no longer more-likely-than-not (see Note 13, "Income Taxes", of the Notes to Condensed Consolidated Financial Statements).

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

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

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

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

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

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

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

Although Brocade uses standard parts and components for its products where possible, Brocade's contract manufacturers currently purchase, on Brocade's behalf, several key components used in the manufacture of its products from single or limited supplier sources. Brocade's single source components include, but are not limited to, its application-specific integrated circuits ("ASICs") and Brocade's principal limited source components include memory, certain oscillators, microprocessors, certain connectors, certain logic chips, power supplies, programmable logic devices, printed circuit boards, certain optical components, packet processors and switching fabrics. Brocade generally acquires these components through purchase orders and has no long-term commitments regarding supply or pricing with such suppliers. If Brocade is unable to obtain these and other components when required, or if Brocade experiences component defects, Brocade may not be able to deliver Brocade's products to Brocade's customers in a timely manner and may be required to repair or retro-fit products previously delivered to customers at significant expense to Brocade. In addition, a challenging economic or industry environment could cause some of these sole source or limited source suppliers to delay or halt production or to go out of business or be acquired by third parties, which could result in a disruption in Brocade's supply chain. Brocade's supply chain could also be disrupted in a variety of other circumstances that may impact its suppliers and partners, including adverse results from intellectual property litigation or natural disasters. As a result, Brocade's business and financial results could be harmed. For example, the recent earthquake, tsunami and subsequent nuclear reactor issues in Japan in March 2011 could negatively impact Brocade's supply chain. Although Brocade does not anticipate any immediate supply chain impact and continues to monitor the potential longer-term impact, certain limited components supplied for Brocade products are manufactured in Japan, which could pose some risk to Brocade's supply chain.

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

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

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

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

Brocade's success depends, to a significant degree, upon the continued contributions of key management, engineering, sales and other talent, many of whom would be difficult to replace. Brocade is focused on increasing revenue and intends to continue to expand its direct sales force by hiring highly skilled sales talent globally. Brocade believes its future success depends, in large part, upon Brocade's ability to effectively attract highly skilled sales talent in addition to managerial, engineering and other talent, and on the ability of management to operate effectively, both individually and as a group, in geographically diverse locations. There is a limited number of qualified talent in each applicable market and competition for such talent has become much more aggressive. Other companies in our industry and geographic regions are recruiting from the same limited talent pool which creates further compression on the availability of qualified talent. In particular, Brocade operates in various locations with highly competitive labor markets including Bangalore, India and San Jose, California, as well as certain emerging labor markets, such as the Eastern European and Latin American markets. Brocade may experience difficulty in hiring qualified talent with skills in areas such as sales, ASICs, software, system and test, product management, marketing, service, customer support and key management.

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

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

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

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

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

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

- Receipt of a high number of customer orders towards the end of a fiscal quarter will increase reported receivables outstanding as a fraction of reported sales and result in higher days sales outstanding;
- Disruptions, or a continued decline, in general economic conditions, particularly in the information technology industry and U.S. federal government budget cycles;
- Announcements of pending or completed acquisitions or other strategic transactions by Brocade, its competitors or its partners;
- Announcements, introductions and transitions of new products by Brocade, its competitors or its partners;
- The timing of customer orders, product qualifications and product introductions of Brocade's partners;
- Long and complex sales cycles;
- Internal supply and inventory management objectives of Brocade's OEM partners and other customers;

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

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

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

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

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

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

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

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

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. One example was Brocade’s acquisition of Foundry in December 2008. Brocade may not realize the anticipated benefits of any of its acquisitions or strategic investments, which involve numerous risks, including:

- Difficulties in successfully integrating the acquired businesses;
- Inability to effectively coordinate sales and marketing efforts to communicate the capabilities of the combined company;
- Customer uncertainty that may cause delays or cancellations of customer purchases, as well as revenue attrition in excess of anticipated levels if existing customers alter or reduce their historical buying patterns;
- Unanticipated costs, litigation and other contingent liabilities;
- Diversion of management’s attention from Brocade’s daily operations and business;
- Adverse effects on existing business relationships with suppliers and customers;

- Risks associated with entering into markets in which Brocade has limited or no prior experience, including potentially less visibility into demand;
- Inability to attract and retain key employees;
- Inability to retain key customers, distributors, vendors and other business partners of the acquired business;
- Inability to successfully develop new products and services on a timely basis that address the market opportunities of the combined company;
- Inability to compete effectively against companies already serving the broader market opportunities expected to be available to the combined company;
- Inability to qualify the combined company's products with OEM partners on a timely basis, or at all;
- Inability to successfully integrate and harmonize financial reporting and information technology systems;
- Failure to successfully manage additional remote locations, including the additional infrastructure and resources necessary to support and integrate such locations;
- Assumption or incurrence of debt and contingent liabilities and related obligations to service such liabilities and Brocade's ability to satisfy financial and other negative operating covenants;
- Additional costs such as increased costs of manufacturing and service costs, costs associated with excess or obsolete inventory, costs of employee redeployment, relocation and retention, including salary increases or bonuses, accelerated amortization of deferred equity compensation and severance payments, reorganization or closure of facilities, taxes, advisor and professional fees, and termination of contracts that provide redundant or conflicting services;
- Incurrence of significant exit charges if products acquired in business combinations are unsuccessful;
- Incurrence of acquisition and integration related costs, accounting charges, or amortization costs for acquired intangible assets, that could negatively impact Brocade's operating results and financial condition; and
- Potential write-down of goodwill, acquired intangible assets and/or deferred tax assets, which are subject to impairment testing on an annual basis, and could significantly impact Brocade's operating results.

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

Brocade is subject to changing rules and regulations of federal and state government as well as the stock exchange on which Brocade's common stock is listed. These entities, including the Public Company Accounting Oversight Board, the FASB, the SEC, the IRS and NASDAQ, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. In addition, the Department of Treasury, the SEC and various Congressional representatives have recently proposed additional rules and regulations that may go into effect in the near future. On July 21, 2010, the Dodd-Frank Wall Street Reform and Protection Act was enacted. The Act included significant corporate governance and executive compensation-related provisions and also required the SEC to adopt additional rules and regulations in areas such as "say on pay" and proxy access. Brocade is also subject to various rules and regulations of certain foreign jurisdictions, including applicable tax regulations. Brocade's efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities. Similarly, any change in the tax law in the jurisdictions in which Brocade does business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in Brocade's tax expense. For example, in the 2011 and 2012 budget proposals, the President of the United States and the U.S. Treasury

Department have proposed changing certain of the U.S. tax rules for U.S. corporations doing business outside the United States. Other legislation has not yet been proposed or enacted, but it is possible that these or other changes in the federal or state tax laws could increase Brocade's U.S. income tax liability in the future.

Brocade is subject to periodic audits or other reviews by such governmental agencies. For example, Brocade is under examination by the IRS for its domestic federal income tax return for the fiscal years 2004 through 2008. In addition, Foundry's California income tax returns for calendar years 2006 and 2007 are currently being examined by the California Franchise Tax Board. All these examination cycles remain open as of April 30, 2011. Brocade resolved its California income tax audit for the years ended October 25, 2003 and October 30, 2004. To the extent carryforwards from these years are used in the future, the California Franchise Tax Board has the right to audit the carryforward amounts. 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.

The IRS is contesting Brocade's transfer pricing for the cost sharing and buy-in arrangements with its foreign subsidiaries. Brocade appealed the Revenue Agent's Report to the Appeals Office of the IRS for the years under examination through 2006. The IRS is also examining Brocade's fiscal year 2007 and 2008 income tax returns. The IRS may make similar claims against Brocade's transfer pricing arrangements in future examinations. Audits by the IRS are subject to inherent uncertainties and an unfavorable outcome could occur, such as fines or penalties. The occurrence of an unfavorable outcome in any specific period could have a material adverse effect on Brocade's results of operations for that period or future periods. The expense of defending and resolving such an audit may be significant. The amount of time to resolve an audit is unpredictable and defending Brocade may divert management's attention from Brocade's day-to-day business operations, which could adversely affect Brocade's business.

Brocade is subject to various environmental and other regulations governing product safety, materials usage, packaging and other environmental impacts in the various countries where Brocade's products are sold. For example, many of Brocade's products are subject to laws and regulations that restrict the use of lead, mercury, hexavalent chromium, cadmium and other substances, and require producers of electrical and electronic equipment to assume responsibility for collecting, treating, recycling and disposing of Brocade's products when they have reached the end of their useful life. For example, in Europe, substance restrictions apply to products sold, and certain of Brocade's partners require compliance with these or more stringent requirements. In addition, recycling, labeling, financing and related requirements apply to products Brocade sells in Europe. China has also enacted similar legislation with similar requirements for Brocade's products or its partners. Despite Brocade's efforts to ensure that its products comply with new and emerging requirements, Brocade cannot provide absolute assurance that its products will, in all cases, comply with such requirements. If Brocade's products do not comply with the substance restrictions under local environmental laws, Brocade could become subject to fines, civil or criminal sanctions and contract damage claims. In addition, Brocade could be prohibited from shipping non-compliant products into one or more jurisdictions and required to recall and replace any non-compliant products already shipped, which would disrupt its ability to ship products and result in reduced revenue, increased obsolete or excess inventories, and harm to Brocade's business and customer relationships. Brocade's suppliers may also fail to provide it with compliant materials, parts and components despite Brocade's requirement to do so, which could impact Brocade's ability to timely produce compliant products and, accordingly, could disrupt its business.

Business interruptions could adversely affect Brocade's business.

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

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

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

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

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

Brocade 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 in December 2008, Brocade increased its indebtedness by approximately $1.1 billion in Senior Secured Credit Facility for a total indebtedness of approximately $1.3 billion. As of April 30, 2011, Brocade owed $600 million of Senior Secured Notes and approximately $252 million under the Senior Secured Credit Facility (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). While the amount of the debt has been refinanced and reduced in part, 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 Brocade's flexibility to respond to changing business and economic conditions and increasing borrowing costs, and may adversely affect Brocade's operations and financial results. The increased indebtedness may also adversely affect Brocade's ability to access sources of capital or incur certain liens. In addition, Brocade's failure to comply with these covenants could result in a default under the applicable debt financing agreements, which could permit the holders to accelerate such debt or demand payment in exchange for a waiver of such default. If any of Brocade's debt is accelerated, Brocade may not have sufficient funds available to repay such debt. The current debt under the Senior Secured Credit Facility has a floating interest rate and an increase in interest rates may negatively impact Brocade's financial results. The mandatory debt repayment schedule on the Senior Secured Credit Facility may negatively impact Brocade's cash position and reduce Brocade's financial flexibility. In addition, any negative changes by rating agencies to Brocade's credit rating may negatively impact the value and liquidity of Brocade's debt and equity securities and Brocade's ability to access sources of capital.

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

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

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

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

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Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description of Document
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	Certificates of Correction and Corrected Amended and Restated Certificate of Incorporation effective as of June 1, 2009 (incorporated by reference to Exhibit 3.5 from Brocade's quarterly report on Form 10-Q for the quarter ended May 2, 2009)
3.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation effective as of April 13, 2010 (incorporated by reference to Exhibit 3.1 from Brocade's Form 8-K filed on April 13, 2010)
3.4	Amended and Restated Bylaws of the Registrant effective as of April 13, 2010 (incorporated by reference to Exhibit 3.2 from Brocade's Form 8-K filed on April 13, 2010)
3.5	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)
3.6	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)
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	Indenture, dated as of January 20, 2010, by and among Brocade, the Subsidiary Guarantors named therein and Wells Fargo Bank, National Association, as Trustee, governing the 2018 Notes (incorporated by reference to Exhibit 4.1 from Brocade's Form 8-K filed on January 26, 2010)
4.3	Indenture, dated as of January 20, 2010, by and among Brocade, the Subsidiary Guarantors named therein and Wells Fargo Bank, National Association, as Trustee, governing the 2020 Notes (incorporated by reference to Exhibit 4.2 from Brocade's Form 8-K filed on January 26, 2010)
10.1*/**	2009 Employee Stock Purchase Plan, as amended and restated March 9, 2011
10.2**	Statement of Work #9, dated April 8, 2011, to Goods Agreement between International Business Machines and Brocade
10.3*/**	French Sub-Plan under the 2009 Stock Plan and related forms of agreements
31.1**	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer
31.2**	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer
32.1**	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS***	XBRL Instance Document
101.SCH***	XBRL Taxonomy Extension Schema Document
101.CAL***	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB***	XBRL Taxonomy Extension Label Linkbase Document

101.PRE***	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates management compensatory plan, contract or arrangement

** Filed herewith

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

SIGNATURES

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

	Brocade Communications Systems, Inc.
Date: June 1, 2011	By: /s/ Richard Deranleau
	Richard Deranleau
	Chief Financial Officer

BROCADE COMMUNICATIONS SYSTEMS, INC.
2009 EMPLOYEE STOCK PURCHASE PLAN
(As amended and restated on March 9, 2011)

1. Purpose. The purpose of the Plan is to provide employees of the Company and its Designated Subsidiaries with an opportunity to purchase Common Stock through accumulated payroll deductions. The Company's intention is to have the Plan qualify as an "employee stock purchase plan" under Section 423 of the Code. The provisions of the Plan, accordingly, will be construed so as to extend and limit Plan participation in a uniform and nondiscriminatory basis consistent with the requirements of Section 423 of the Code.

2. Definitions.

(a) "Administrator" means the Board or any Committee designated by the Board to administer the Plan pursuant to Section 14.

(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) "Board" means the Board of Directors of the Company.

(d) "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(d), 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.

(e) "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.

(f) "Committee" means a committee of the Directors or of other individuals satisfying Applicable Laws appointed by the Board in accordance with Section 14.

(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) "Compensation" means an Eligible Employee's base straight time gross earnings and commissions, inclusive of payments for overtime, shift premium, incentive compensation, incentive payments, bonuses and other cash compensation.

(j) "Designated Subsidiary" means any Subsidiary that has been designated by the Administrator from time to time in its sole discretion as eligible to participate in the Plan.

(k) "Director" means a member of the Board.

(l) "Eligible Employee" means any individual who is a common law employee of an Employer and is customarily employed for at least 20 hours per week and more than 5 months in any calendar year by the Employer. For purposes of the Plan, the employment relationship will be treated as continuing intact while the individual is on sick leave or other leave of absence that the Employer approves. Where the period of leave exceeds 90 days and the individual's right to reemployment is not guaranteed either by statute or by contract, the employment relationship will be deemed to have terminated on the 91st day of such leave. The Administrator, in its discretion, from time to time may, prior to an Offering Date for all options to be granted on such Offering Date, determine (on a uniform and nondiscriminatory basis) that the definition of Eligible Employee will or will not include an individual if he or she: (i) has not completed at least 2 years of service since his or her last hire date (or such lesser period of time as may be determined by the Administrator in its discretion), (ii) customarily works not more than 20 hours per week (or such lesser period of time as may be determined by the Administrator in its discretion), (iii) customarily works not more than 5 months per calendar year (or such lesser period of time as may be determined by the Administrator in its discretion), (iv) is an officer or other manager, or (v) is a highly compensated employee under Section 414(q) of the Code.

(m) "Employer" means any one or all of the Company and its Designated Subsidiaries.

(n) "Exchange Act" means the Securities Exchange Act of 1934, as amended, including the rules and regulations promulgated thereunder.

(o) "Exercise Date" means the last day of a Purchase Period.

(p) "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 Select Market, the Nasdaq Global 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 the closing bid, if no sales were reported) as quoted on such exchange or system on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator 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 of the closing bid and asked prices for the Common Stock on the date of determination, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; 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 Administrator.

(q) "Fiscal Year" means the fiscal year of the Company.

(r) "New Exercise Date" means a new Exercise Date by shortening any Offering Period or Purchase Period then in progress.

(s) "Offering Date" means the first Trading Day of each Offering Period.

(t) "Offering Period" will mean a period of approximately 24 months, or such shorter period of time as determined by the Administrator in its sole discretion, during which an option granted pursuant to the Plan may be exercised, (i) commencing on the first Trading Day on or after June 1 of the initial year of the Plan and terminating on the last Trading Day in the period, thereof, (ii) with respect to Offering Periods commencing prior to March 9, 2011, commencing on the first Trading Day after the Exercise Date of the preceding Offering Period and terminating on the last Trading Day in the period, and (iii) with respect to Offering Periods commencing on or after March 9, 2011, commencing on the first Trading Day on or after June 1 and December 1 of each year and terminating on the first Trading Day on or after June 1 and December 1, approximately 24 months later. The duration and timing of Offering Periods may be changed pursuant to Sections 4 and 19.

(u) "Parent" means a "parent corporation," whether now or hereafter existing, as defined in Section 424(e) of the Code.

(v) "Participant" means an Eligible Employee that participates in the Plan.

(w) "Plan" means this 2009 Employee Stock Purchase Plan.

(x) "Purchase Period" means the period during an Offering Period that shares of Common Stock may be purchased on a Participant's behalf in accordance with the terms of the Plan. Unless the Administrator provides otherwise, the Purchase Period will have the same duration and coincide with the length of the Offering Period.

(y) "Purchase Price" means an amount equal to 85% of the Fair Market Value of a share of Common Stock on the Offering Date or on the Exercise Date, whichever is lower; provided, however, that the Purchase Price may be determined for subsequent Offering Periods by the Administrator subject to compliance with Section 423 of the Code (or any successor rule or provision or any other applicable law, regulation or stock exchange rule) or pursuant to Section 19.

(z) "Subsidiary" means a "subsidiary corporation," whether now or hereafter existing, as defined in Section 424(f) of the Code.

(aa) "Trading Day" means a day on which the national stock exchange upon which the Common Stock is listed is open for trading.

3. Eligibility.

(a) Offering Date. Any Eligible Employee on a given Offering Date will be eligible to participate in the Plan, subject to the requirements of Section 5.

(b) Limitations. Any provisions of the Plan to the contrary notwithstanding, no Eligible Employee will be granted an option under the Plan (i) to the extent that, immediately after the grant, such Eligible Employee (or any other person whose stock would be attributed to such Eligible Employee pursuant to Section 424(d) of the Code) would own capital stock of the Company or any Parent or Subsidiary of the Company and/or hold outstanding options to purchase such stock possessing 5% or more of the total combined voting power or value of all classes of the capital stock of the Company or of any Parent or Subsidiary of the Company, or (ii) to the extent that his or her rights to purchase stock under all employee stock purchase plans (as defined in Section 423 of the Code) of the Company or any Parent or Subsidiary of the Company accrues at a rate which exceeds $25,000 worth of stock (determined at the Fair Market Value of the stock at the time such option is granted) for each calendar year in which such option is outstanding at any time.

4. Offering Periods. The Plan will be implemented by consecutive Offering Periods with a new Offering Period commencing on the first Trading Day on or after June 1 and December 1 each year, or on such other date as the Administrator will determine, and continuing thereafter until terminated in accordance with Section 20. The Administrator will have the power to change the duration of Offering Periods (including the commencement dates thereof) with respect to future offerings without stockholder approval if such change is announced prior to the scheduled beginning of the first Offering Period to be affected thereafter.

5. Participation. An Eligible Employee may participate in the Plan pursuant to Section 3(a) by (i) submitting to the Company's stock administration office (or its designee), on or before a date determined by the Administrator prior to an applicable Offering Date, a properly completed subscription agreement authorizing payroll deductions in the form provided by the Administrator for such purpose, or (ii) following an electronic or other enrollment procedure determined by the Administrator.

6. Payroll Deductions.

(a) At the time a Participant enrolls in the Plan pursuant to Section 5, he or she will elect to have payroll deductions made on each pay day during the Offering Period in an amount not exceeding 15% of the Compensation which he or she receives on each pay day during the Offering Period; provided, however, that should a pay day occur on an Exercise Date, a Participant will have the payroll deductions made on such day applied to his or her account under the subsequent Purchase or Offering Period. A Participant's subscription agreement will remain in effect for successive Offering Periods unless terminated as provided in Section 10.

(b) Payroll deductions for a Participant will commence on the first pay day following the Offering Date and will end on the last pay day prior to the Exercise Date of such Offering Period to which such authorization is applicable, unless sooner terminated by the Participant as provided in Section 10.

(c) All payroll deductions made for a Participant will be credited to his or her account under the Plan and will be withheld in whole percentages only. A Participant may not make any additional payments into such account.

(d) A Participant may discontinue his or her participation in the Plan as provided in Section 10, or may increase or decrease the rate of his or her payroll deductions during the Offering Period by (i) properly completing and submitting to the Company's stock administration office (or its designee), on or before a date determined by the Administrator prior to an applicable Exercise Date, a new subscription agreement authorizing the change in payroll deduction rate in the form provided by the Administrator for such purpose, or (ii) following an electronic or other procedure prescribed by the Administrator; provided, however, that a Participant may only make one payroll deduction change during each Offering Period. If a Participant has not followed such procedures to change the rate of payroll deductions, the rate of his or her payroll deductions will continue at the originally elected rate throughout the Offering Period and future Offering Periods (unless terminated as provided in Section 10). The Administrator may, in its sole discretion, limit the nature and/or number of payroll deduction rate changes that may be made by Participants during any Offering Period. Any change in payroll deduction rate made pursuant to this Section 6(d) will be effective as of the first full payroll period following 5 business days after the date on which the change is made by the Participant (unless the Administrator, in its sole discretion, elects to process a given change in payroll deduction rate more quickly).

(e) Notwithstanding the foregoing, to the extent necessary to comply with Section 423(b)(8) of the Code and Section 3(b), a Participant's payroll deductions may be decreased to 0% at any time during a Offering Period. Subject to Section 423(b)(8) of the Code and Section 3(b), payroll deductions will recommence at the rate originally elected by the Participant effective as of the beginning of the first Offering Period scheduled to end in the following calendar year, unless terminated by the Participant as provided in Section 10.

(f) At the time the option is exercised, in whole or in part, or at the time some or all of the Common Stock issued under the Plan is disposed of, the Participant must make adequate provision for the Company's or Employer's federal, state, or any other tax liability payable to any authority, national insurance, social security or other tax withholding obligations, if any, which arise upon the exercise of the option or the disposition of the Common Stock. At any time, the Company or the Employer may, but will not be obligated to, withhold from the Participant's compensation the amount necessary for the Company or the Employer to meet applicable withholding obligations, including any withholding required to make available to the Company or the Employer any tax deductions or benefits attributable to sale or early disposition of Common Stock by the Eligible Employee.

7. Grant of Option. On the Offering Date of each Offering Period, each Eligible Employee participating in such Offering Period will be granted an option to purchase on each Exercise Date during such Offering Period (at the applicable Purchase Price) up to a number of shares of Common Stock determined by dividing such Eligible Employee's payroll deductions accumulated prior to such Exercise Date and retained in the Eligible Employee's account as of the Exercise Date by the applicable Purchase Price; provided that in no event will an Eligible Employee be permitted to purchase during each 6-month (or shorter) Purchase Period more than 5,000 shares of the Common Stock (subject to any adjustment pursuant to Section 18), and provided further that such purchase will be subject to the limitations set forth in Sections 3(b) and 13. The Eligible Employee may accept the grant of such option with respect to the first Offering Period by submitting a properly completed subscription agreement in accordance with the requirements of Section 5 on or before the last day of the Enrollment Window, and (ii) with respect to any future Offering Period under the Plan, by electing to participate in the Plan in accordance with the requirements of Section 5. The Administrator may, for future Offering Periods, increase or decrease, in its absolute discretion, the maximum number of shares of Common Stock that an Eligible Employee may purchase during each Offering Period. Exercise of the option will occur as provided in Section 8, unless the Participant has withdrawn pursuant to Section 10. The option will expire on the last day of the Offering Period.

8. Exercise of Option.

(a) Unless a Participant withdraws from the Plan as provided in Section 10, his or her option for the purchase of shares of Common Stock will be exercised automatically on the Exercise Date, and the maximum number of full shares subject to option will be purchased for such Participant at the applicable Purchase Price with the accumulated payroll deductions from his or her account. No fractional shares of Common Stock will be purchased; any payroll deductions accumulated in a Participant's account which are not sufficient to purchase a full share will be retained in the Participant's account for the subsequent Offering Period, subject to earlier withdrawal by the Participant as provided in Section 10. Any other funds left over in a Participant's account after the Exercise Date will be returned to the Participant. During a Participant's lifetime, a Participant's option to purchase shares hereunder is exercisable only by him or her.

(b) If the Administrator determines that, on a given Exercise Date, the number of shares of Common Stock with respect to which options are to be exercised may exceed (i) the number of shares of Common Stock that were available for sale under the Plan on the Offering Date of the applicable Offering Period, or (ii) the number of shares of Common Stock available for sale under the Plan on such Exercise Date, the Administrator may in its sole discretion provide that the Company will make a pro rata allocation of the shares of Common Stock available for purchase on such Offering Date or Exercise Date, as applicable, in as uniform a manner as will be practicable and as it will determine in its sole discretion to be equitable among all Participants exercising options to purchase Common Stock on such Exercise Date, and continue all Offering Periods then in effect or terminate all Offering Periods then in effect pursuant to Section 19. The Company may make a pro rata allocation of the shares available on the Offering Date of any applicable Offering Period pursuant to the preceding sentence, notwithstanding any authorization of additional shares for issuance under the Plan by the Company's stockholders subsequent to such Offering Date.

9. Delivery. As soon as reasonably practicable after each Exercise Date on which a purchase of shares of Common Stock occurs, the Company will arrange the delivery to each Participant the shares purchased upon exercise of his or her option in a form determined by the Administrator (in its sole discretion) and pursuant to rules established by the Administrator. The Company may permit or require that shares be deposited directly with a broker designated by the Company or to a designated agent of the Company, and the Company may utilize electronic or automated methods of share transfer. The Company may require that shares be retained with such broker or agent for a designated period of time and/or may establish other procedures to permit tracking of disqualifying dispositions of such shares. No Participant will have any voting, dividend, or other stockholder rights with respect to shares of Common Stock subject to any option granted under the Plan until such shares have been purchased and delivered to the Participant as provided in this Section 9.

10. Withdrawal.

(a) A Participant may withdraw all but not less than all the payroll deductions credited to his or her account and not yet used to exercise his or her option under the Plan at any time by (i) submitting to the Company's stock administration office (or its designee) a written notice of withdrawal in the form determined by the Administrator for such purpose (which may be similar to the form attached hereto as Exhibit B), or (ii) following an electronic or other withdrawal procedure determined by the Administrator. All of the Participant's payroll deductions credited to his or her account will be paid to such Participant promptly after receipt of notice of withdrawal and such Participant's option for the Offering Period will be automatically terminated, and no further payroll deductions for the purchase of shares will be made for such Offering Period. If a Participant withdraws from an Offering Period, payroll deductions will not resume at the beginning of the succeeding Offering Period, unless the Participant re-enrolls in the Plan in accordance with the provisions of Section 5.

(b) A Participant's withdrawal from an Offering Period will not have any effect upon his or her eligibility to participate in any similar plan which may hereafter be adopted by the Company or in succeeding Offering Periods which commence after the termination of the Offering Period from which the Participant withdraws.

11. Termination of Employment. Upon a Participant's ceasing to be an Eligible Employee, for any reason, he or she will be deemed to have elected to withdraw from the Plan and the payroll deductions credited to such Participant's account during the Offering Period but not yet used to purchase shares of Common Stock under the Plan will be returned to such Participant or, in the case of his or her death, to Participant's estate, and such Participant's option will be automatically terminated.

12. Interest. No interest will accrue on the payroll deductions of a Participant in the Plan.

13. Stock.

(a) Subject to adjustment upon changes in capitalization of the Company as provided in Section 18, the maximum number of shares of Common Stock which will be made available for sale under the Plan will be 35 million shares of Common Stock.

(b) 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), a Participant will only have the rights of an unsecured creditor with respect to such shares, and no right to vote or receive dividends or any other rights as a stockholder will exist with respect to such shares.

(c) Shares of Common Stock to be delivered to a Participant under the Plan will be registered in the name of the Participant or in the name of the Participant and his or her spouse.

14. Administration. The Plan will be administered by the Board or a Committee appointed by the Board, which Committee will be constituted to comply with Applicable Laws. The Administrator will have full and exclusive discretionary authority to construe, interpret and apply the terms of the Plan, to determine eligibility and to adjudicate all disputed claims filed under the Plan. Every finding, decision and determination made by the Administrator will, to the full extent permitted by law, be final and binding upon all parties. Notwithstanding any provision to the contrary in this Plan, the Administrator may adopt rules or procedures relating to the operation and administration of the Plan to accommodate the specific requirements of local laws and procedures for jurisdictions outside of the United States. Without limiting the generality of the foregoing, the Administrator is specifically authorized to adopt rules and procedures regarding eligibility to participate, the definition of Compensation, handling of payroll deductions, making of contributions to the Plan (including, without limitation, in forms other than payroll deductions), establishment of bank or trust accounts to hold payroll deductions, payment of interest, conversion of local currency, obligations to pay payroll tax, determination of beneficiary designation requirements, withholding procedures and handling of stock certificates that vary with local requirements.

15. Transferability. Except as described in the subscription agreement, neither payroll deductions credited to a Participant's account nor any rights with regard to the exercise of an option or to receive shares of Common Stock under the Plan may be assigned, transferred, pledged or otherwise disposed of in any way (other than by will, the laws of descent and distribution) by the Participant. Any such attempt at assignment, transfer, pledge or other disposition will be without effect, except that the Company may treat such act as an election to withdraw funds from an Offering Period in accordance with Section 10.

16. Use of Funds. The Company may use all payroll deductions received or held by it under the Plan for any corporate purpose, and the Company will not be obligated to segregate such payroll deductions. Until shares of Common Stock are issued, Participants will only have the rights of an unsecured creditor with respect to such shares.

17. Reports. Individual accounts will be maintained for each Participant in the Plan. Statements of account will be given to participating Eligible Employees at least annually, which statements will set forth the amounts of payroll deductions, the Purchase Price, the number of shares of Common Stock purchased and the remaining cash balance, if any.

18. Adjustments, Dissolution, Liquidation, Merger or Change in Control.

(a) Adjustments. In the event that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Stock or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Stock occurs, the Administrator, in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will, in such manner as it may deem equitable, adjust the number and class of Common Stock which may be delivered under the Plan, the Purchase Price per share and the number of shares of Common Stock covered by each option under the Plan which has not yet been exercised, and the numerical limits of Sections 7 and 13.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, any Offering Period then in progress will be shortened by setting a New Exercise Date, and will terminate immediately prior to the consummation of such proposed dissolution or liquidation, unless provided otherwise by the Administrator. The New Exercise Date will be before the date of the Company's proposed dissolution or liquidation. The Administrator will notify each Participant in writing, at least 10 business days prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10.

(c) Merger or Change in Control. In the event of a merger or Change in Control, each outstanding option will be assumed or an equivalent option substituted by the successor corporation or a Parent or Subsidiary of the successor corporation. In the event that the successor corporation refuses to assume or substitute for the option, the Offering Period with respect to which such option relates will be shortened by setting a New Exercise Date and will end on the New Exercise Date. The New Exercise Date will occur before the date of the Company's proposed merger or Change in Control. The Administrator will notify each Participant in writing prior to the New Exercise Date, that the Exercise Date for the Participant's option has been changed to the New Exercise Date and that the Participant's option will be exercised automatically on the New Exercise Date, unless prior to such date the Participant has withdrawn from the Offering Period as provided in Section 10.

19. Amendment or Termination.

(a) The Administrator, in its sole discretion, may amend, suspend, or terminate the Plan, or any part thereof, at any time and for any reason. If the Plan is terminated, the Administrator, in its discretion, may elect to terminate all outstanding Offering Periods either immediately or upon completion of the purchase of shares of Common Stock on the next Exercise Date (which may be sooner than originally scheduled, if determined by the Administrator in its discretion), or may elect to permit Offering Periods to expire in accordance with their terms (and subject to any adjustment pursuant to Section 18). If the Offering Periods are terminated prior to expiration, all amounts then credited to Participants' accounts which have not been used to purchase shares of Common Stock will be returned to the Participants (without interest thereon, except as otherwise required under local laws) as soon as administratively practicable.

(b) Without stockholder consent and without limiting Section 19(a), the Administrator will be entitled to change the Offering Periods, limit the frequency and/or number of changes in the amount withheld during an Offering Period, establish the exchange ratio applicable to amounts withheld in a currency other than U.S. dollars, permit payroll withholding in excess of the amount designated by a Participant in order to adjust for delays or mistakes in the Company's processing of properly completed withholding elections, establish reasonable waiting and adjustment periods and/or accounting and crediting procedures to ensure that amounts applied toward the purchase of Common Stock for each Participant properly correspond with amounts withheld from the Participant's Compensation, and establish such other limitations or procedures as the Administrator determines in its sole discretion advisable which are consistent with the Plan.

(c) In the event the Administrator determines that the ongoing operation of the Plan may result in unfavorable financial accounting consequences, the Administrator may, in its discretion and, to the extent necessary or desirable, modify, amend or terminate the Plan to reduce or eliminate such accounting consequence including, but not limited to:

(i) amending the Plan to conform with the safe harbor definition under Statement of Financial Accounting Standards 123(R), including with respect to an Offering Period underway at the time;

(ii) altering the Purchase Price for any Offering Period including an Offering Period underway at the time of the change in Purchase Price;

(iii) shortening any Offering Period by setting a New Exercise Date, including an Offering Period underway at the time of the Administrator action;

(iv) reducing the maximum percentage of Compensation a Participant may elect to set aside as payroll deductions; and

(v) reducing the maximum number of Shares a Participant may purchase during any Offering Period or Purchase Period.

Such modifications or amendments will not require stockholder approval or the consent of any Plan Participants.

20. Notices. All notices or other communications by a Participant to the Company under or in connection with the Plan will be deemed to have been duly given when received in the form and manner specified by the Company at the location, or by the person, designated by the Company for the receipt thereof.

21. Conditions Upon Issuance of Shares. Shares of Common Stock will not be issued with respect to an option unless the exercise of such option and the issuance and delivery of such shares pursuant thereto will comply with all applicable provisions of law, domestic or foreign, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, 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.

As a condition to the exercise of an option, the Company may require the person exercising such option 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 applicable provisions of law.

22. Term of Plan. The Plan will become effective upon the earlier to occur of its adoption by the Board or its approval by the stockholders of the Company. It will continue in effect for a term of 10 years, unless sooner terminated under Section 19.

23. Stockholder Approval. The Plan will be subject to approval by the stockholders of the Company within 12 months after the date the Plan is adopted by the Board. Such stockholder approval will be obtained in the manner and to the degree required under Applicable Laws.

24. Automatic Transfer to Low Price Offering Period. To the extent permitted by Applicable Laws, if the Fair Market Value of the Common Stock on any Exercise Date in an Offering Period is lower than the Fair Market Value of the Common Stock on the Offering Date of such Offering Period, then all Participants in such Offering Period will be automatically withdrawn from such Offering Period immediately after the exercise of their option on such Exercise Date and automatically re-enrolled in the immediately following Offering Period.

EXHIBIT A

BROCADE COMMUNICATIONS SYSTEMS, INC.

2009 EMPLOYEE STOCK PURCHASE PLAN

SUBSCRIPTION AGREEMENT

[AS PROVIDED BY E*TRADE]

EXHIBIT B

BROCADE COMMUNICATIONS SYSTEMS, INC.

2009 EMPLOYEE STOCK PURCHASE PLAN

NOTICE OF WITHDRAWAL

[AS PROVIDED BY E*TRADE]

GOODS AGREEMENT
STATEMENT OF WORK

Agreement # ROC-P-68
SOW#9

This Statement of Work #9 ("SOW" or "SOW #9") adopts and incorporates by reference the terms and conditions of Goods Agreement # ROC-P-68 ("Agreement") between International Business Machines Corporation ("Buyer") and Brocade Communications Systems, Inc. and Brocade Communications Switzerland SarL (collectively, "Supplier"). Transactions performed under this SOW will be conducted in accordance with and be subject to the terms and conditions of this SOW and the Agreement. The term of this SOW #9 shall be effective April 7, 2011 for a period of two (2) years commencing on the Effective Date. Upon expiration of this Term and each Renewal Term thereafter, this SOW will be automatically renewed for an additional one (1) year term ("Renewal Term") unless terminated by either party upon ninety (90) days' written notice prior to the expiration of any Renewal Terms. Unless otherwise provided, capitalized terms shall have the meaning as set forth in the Agreement. This SOW is not a WA.

WHEREAS, Statement of Work, Amendment No. 4 to Goods Agreement ROC-P-68, as subsequently amended covers the purchase of support for Brocade manufactured products at the end user site without regard to whether or not the end user bought the Brocade product from IBM.

WHEREAS, the parties wish to include Brocade manufactured products, including those products which IBM OEMs under the McDATA OEM agreement.

WHEREAS, the parties wish to create this separate SOW #9 to allow IBM to provide support to end users of "non-IBM" Brocade products;

THEREFORE, Amendment No. 4 to Goods Agreement ROC-P-68 is deleted and replaced in full by this SOW #9 to Goods Agreement ROC-P-68.

THEREFORE, in consideration of the above and the other respective promises of the parties set forth herein, the parties hereto agree as follows and such agreement is incorporated as Statement of Work #9 into Base Goods Agreement #ROC-P-68.

1.0 DEFINITIONS

1.1 "Authorized Territory" means the location as set forth in Exhibit A, which IBM is approved to provide its End Users with Support Services.

1.2 "Backline Support" generally means in depth technical troubleshooting and analysis during Level 3 and Level 4 support as described in Exhibit B.

1.3 "Brocade Marks" means Brocade's trademarks, service marks, trade names or logos used in conjunction with the QSP Program.

1.4 "Brocade Products" means products developed and/or manufactured by or specifically for Brocade and are supported by Brocade.

1.5 "External Web Site" means an external World Wide Web site viewable by IBM and IBM's End Users as established and maintained by Brocade.

1.6 "End User" means IBM's customer who receives support directly from IBM.

1.7 "First (1st) Call Support" means taking the initial support call from the End User customer, performing entitlement verification, collecting problem information, etc. as described in Exhibit B.

1.8 "Frontline Support" means basic technical assistance, basic technical troubleshooting and high-level analysis during Level 1 and Level 2 support as described in Exhibit B.

1.9 "Onsite Support" means the procedure to replace defective hardware at the End User's installation location.

1.10 "IBM" means Buyer or one of its Affiliates.

1.11 “Resale Products” means products that are sold with Brocade Products, are not manufactured by Brocade, and are not supported by Brocade as further described in Exhibit B.

1.12 “QSP Support Offerings” means the type of support the IBM is purchasing from Brocade. Offerings include backline support only or backline support and the repair of defective parts to be returned to IBM as spares.

1.13 “QSP Support Offerings Pricelist” means the pricelist provided by Brocade for the Support Services described in Exhibit B.

1.14 “Support Fee” means the fee paid by IBM to Brocade in consideration of the QSP Support Offerings purchased.

1.15 “Support Services” means Brocade’s and IBM’s support responsibilities as described in Exhibit B.

2.0 Quality Support Partners (QSP) PROGRAM

2.1 *Overview*. This SOW #9 shall govern the rights and obligations of the Parties arising with respect to the QSP Program. Neither Party shall have any rights or obligations vis-à-vis one another by reason of IBM’s participation in the QSP Program that are not expressly granted or provided for in this SOW #9.

2.2 *Authorization under the QSP Program*. Subject to the terms and conditions of this SOW #9 and Exhibit A, Brocade hereby authorizes IBM, as a member of the QSP Program, to support the Brocade Products listed in Exhibit A, without regard to whether or not the End User originally procured the product from IBM. To be considered for inclusion in this SOW #9, the product model must be the Brocade equivalent of the IBM-branded and supplied product, unless agreed in writing in advance by both parties, and cannot have reached its End of Support date. The End User Customer must agree to run versions of the software and firmware supported by IBM. IBM will document the serial numbers of the hardware and version of the software for each unit that will be supported. The Parties agree to review and update Exhibit A as necessary or at IBM’s annual review meeting as described in Section 2.3 below, provided however that all revisions to Exhibit A must be in writing and signed by both parties.

2.3 *Program Review*. Brocade agrees that IBM shall have the right to annual meetings with management from Brocade to review the QSP Program as well as the Parties’ relationship and their respective rights and obligations hereunder. IBM agrees that Brocade shall have the right to conduct periodic reviews of IBM’s participation in the QSP Program including without limitation: business support forecasts; marketing collateral, training and certification levels; sparing plans; and customer satisfaction surveys. In the event that, in Brocade’s reasonable judgment, IBM is not fulfilling its obligations as set forth in Exhibit B, Brocade reserves the right (i) to re-evaluate IBM’s participation in the program or (ii) to provide written notice of such failure, including reasonable detail of the specific performance deficiencies, for which IBM will have a period of thirty (30) days to correct the specified performance deficiencies. If IBM fails to correct the specified performance deficiencies within such 30-day period, annual Support Fees due by IBM will increase by a percentage commensurate with Brocade’s increased support requirements (but not to exceed four times the current Support Fees).

2.4 *Compliance with Law.* IBM agrees that it will comply with all applicable laws, rules and regulations regarding promotion and sale of services covered by the QSP Program and associated with the Brocade Marks.

2.5 *Appointment and* Authorized *Territory*. Brocade hereby authorizes and appoints IBM and IBM accepts the appointment as a non-exclusive Support Service provider entitled to purchase QSP Support Offerings direct from Brocade and to market and provide said Support Services to IBM’s End Users for non-IBM branded Brocade products listed in and the Authorized Territory set forth in Exhibit A.

In connection with this appointment, IBM shall have the non-transferable right to access Brocade remote support as to the specific Products (by serial number) for which the QSP Support Offering was purchased. Nothing in this SOW #9 will restrict Brocade, itself or through third parties, from promoting, licensing selling or providing Support Services for Products to others, or granting the right to others to promote, license, or sell Products in IBM’s Authorized Territory.

3.0 MARKETING OF SUPPORT SERVICES

3.1 *Separate Activities*. Each Party will be responsible for developing, marketing, and selling its own products and services. Neither Party will be required to, nor shall either Party make any representation or warranty regarding the other Party’s products or services.

3.2 *External Web Site.* Brocade shall establish and maintain an external World Wide Web site viewable by IBM and End Users (the "External Web Site"). Brocade shall provide IBM with a template, based upon which IBM shall provide Brocade with information it desires to be posted on the External Web Site. Brocade reserves the right to determine and update the format and layout of the External Web Site. Brocade and IBM will reach consensus in a reasonable amount of time on IBM's content before such content is posted on the External Web Site. Brocade shall use reasonable commercial efforts to obtain IBM's approval for all information about IBM's services before such information is posted on the External Web Site. Notwithstanding the foregoing, IBM shall not be obligated to provide any content to Brocade for the aforementioned purposes.
(http://www.brocade.com/partnerships/Service-Support-Partners/Qualified+Support+Partners/index.page?

3.3 *Copyright Licenses*. IBM hereby grants to Brocade a nonexclusive right and license to copy, have copied, make derivative works based on, perform, display and distribute in electronic, web-based and/or printed form, any and all materials submitted to Brocade for publication on the External Web Site or in marketing materials distributed in connection with the QSP Program. The Parties intend that the derivative works described above involve formatting, stylistic and editorial changes to such material provided by IBM and Brocade will not substantially change such material without IBM's prior written approval.

3.4 *Public Notices.* Each party shall obtain the other's review and approval prior to the release of any press release concerning the existence or subject matter of this SOW #9 or IBM's participation in the QSP Program. Notwithstanding the foregoing, Brocade shall have the right to include in press releases and other public relations and marketing materials regarding the QSP Program and the fact that IBM is a participant in the QSP Program. In addition, Brocade shall provide IBM with a public relations quotation announcing the Parties' relationship and IBM's participation in the Program. IBM may also disclose privately to its End Users its participation in the QSP Program and the nature thereof, provided however that all other Program details shall be subject to the confidentiality restrictions set forth in Section 7.1 of this SOW #9.

4.0 TRAINING

4.1 *Training Requirements*. IBM shall complete any and all Brocade training and certification necessary to deliver its services as required in the applicable Statement of Work for products and the McDATA OEM Agreement. These requirements can be found at the following Supplier's website located at: http://www.brocade.com/partnerships/Service-Support-Partners/Qualified+Support+Partners/index.page

5.0 SUPPORT FEES AND SERVICES

5.1 *Support Fee.* In consideration for IBM's participation in this Program, IBM shall pay Brocade a Support Fee. The Support Fee is based upon Brocade's then current QSP Support Offerings Pricelist. The coverage period applicable to each Support quotation must be listed on the purchase order. QSP Support Offerings are only available for units by serial number for which the Support Fee has been paid. Payment of the Support Fee is due within forty-five (45) days from receipt of a valid Brocade invoice. In the case of overdue Support Fee payments, Brocade may at its discretion suspend support obligations under purchased QSP Support Offerings until such payments have been brought current by IBM.

5.2 *Support Term and Renewal*. Support services shall continue through the term stated on the purchase order and covered by the Support Fee. Thereafter, such Support will be renewed at Brocade's then current IBM Support Offerings Pricelist. If IBM needs to cancel coverage on a unit prior to the end date of the IBM support contract, IBM will provide at least thirty (30) days prior written notice to Brocade. Notwithstanding the foregoing, should Brocade announce "End of Life" on a Product being maintained for IBM, Brocade may, at the beginning of the next Support renewal term and each year thereafter, increase the Support Fee for such Product, provided that such increase will not exceed ten percent (10%) over the prior year's Support Fees.

5.3 *Support Services.* IBM shall be authorized to provide Support Services directly to IBM's End Users in the Authorized Territory set forth in Exhibit A and only for the term of this SOW #9. IBM will purchase QSP Support Offering by serial number for each unit that it will be supporting. However, if IBM uses spares or components which have not been purchased from Brocade or through a Brocade authorized distributor, the IBM Support Offering purchased on that unit will no longer be valid.

5.4 *Support Services on EOL Products.* Notwithstanding anything herein to the contrary, for any Product which has been designated End of Life ("EOL") or End of Support ("EOS"), IBM shall offer support and discontinue support consistent with Brocade's End of Support policy. Brocade will continue to offer Support Services Offerings for discontinued Products as described in Exhibit B, for five (5) years following their EOL date for hardware products and three (3) years for software products or as otherwise announced in channel notifications for Product that is withdrawn from marketing. IBM will not engage in Support Services for any such EOL or EOS Products past the End of Support date and will not sell any renewal support contracts to its End Users beyond the established EOS date. If IBM decides to take on support of units that have reached or passed the EOL date, IBM has full responsibility for sourcing, owning and maintaining sufficient spares inventory to support those units within the response times contracted with the End User customer. Because the EOL date has already been reached and therefore the Last Time Buy opportunity for spares purchase has already passed, Brocade is under no obligations to make spares available to the IBM for use or for purchase.

5.5 *Spare Parts Inventory.* Before providing any Support Services to End User customer, IBM will maintain an adequate and balanced inventory of spare parts,, supplies, and documentation for Products supported by IBM. If IBM wishes to receive Brocade's recommendations on sparing plans and sparing levels, Brocade will facilitate a meeting between IBM and the appropriate organization within Brocade to discuss sparing recommendations. IBM will be responsible for handling the import, export and customs clearance of spare parts into and out of the Authorized Territory. All costs of shipment for the repair or replacement of the defective part will be borne by IBM. Costs of shipment include, but are not limited to actual shipping costs, taxes, duties and customs fees.

6.0 TRADEMARKS AND INTELLECTUAL PROPERTY.

6.1 *Brocade Marks*. Brocade may design, establish, or register in such jurisdictions as it deems appropriate, one or more trademarks, service marks or trade names for use in connection with the QSP Program (the "Brocade Marks"). Brocade shall make copies of the Brocade Marks available to IBM in print ready art form. Brocade shall have the right to modify or replace the Brocade Marks or prepare additional Brocade Marks from time to time and shall provide IBM with copies of such modifications in a reasonable time to allow IBM to implement the modifications.

6.2 *License to Brocade Marks*. Subject to the terms and conditions of this SOW #9 and in accordance with Brocade trademark usage guidelines, Brocade grants IBM a worldwide, nonexclusive, nontransferable, royalty-free, personal license to use the Brocade Marks solely in connection with the QSP Program and with the marketing and sale of IBM's services thereunder. This license does not include the right to sublicense. During the term of this Agreement, IBM shall be entitled to use the Brocade Marks, indicating IBM's association with the QSP Program. Brocade reserves the right to change and/or discontinue the use by IBM of the Brocade Marks at its sole discretion. Upon notice from Brocade, IBM shall immediately cease all use and shall destroy or return the Brocade Marks and any copies thereof. IBM shall not register or attempt to register any confusingly similar marks to the Brocade Marks in any jurisdiction.

6.3 *Review*. All use of the Brocade Marks must be approved in writing by Brocade prior to publication (either in text or electronic format). However, once a particular use is approved, IBM need not again seek approval for substantially similar uses. The Parties will cooperate with each other to facilitate periodic review of each Party's use of the other Party's marks. Brocade and IBM agree to cooperate fully with one another in such review and shall use all commercially reasonable efforts to promptly make such modifications in such materials as are required.

6.4 *Ownership*. IBM acknowledges that Brocade retains all right, title and interest in and to the Brocade Marks. Nothing herein is intended to grant any right in the Brocade Marks other than the right to use the same in accordance with the requirements set forth in this SOW #9. The license to use the Brocade Marks shall cease immediately upon termination or expiration of the IBM's Base Goods Agreement including Statements of Work under such Agreement with Brocade and the McDATA OEM agreement and/or this SOW #9.

6.5 *No License*. Under no circumstances will anything in this SOW #9 be construed as granting, by implication, estoppel or otherwise, a license to any technology or proprietary right belonging to the other Party other than as expressly set forth under this SOW #9.

6.6 *No Certification*. IBM acknowledges that Brocade, by permitting IBM to participate in the QSP Program and to use the Brocade Marks in the manner specified hereunder, is not in any manner certifying the quality of any services rendered by IBM. IBM shall make no oral or written statements inconsistent with the foregoing.

7.0 GENERAL

7.1 *Exchange of Information*. If the parties require the exchange of confidential information, such exchange will be made under the Confidential Disclosure Agreement (CDA) #4904RL0542 dated May 18, 2004 and any Supplements which have been signed or which may be signed in the future.

7.2 *Import / Export Compliance.* IBM agrees to not directly or indirectly provide, sell, resell or distribute any Support Services; a) that would in any way violate the import and export restrictions of the various countries in the Authorized Territories; b) to any U.S. embargoed country; (c) to any person or entity on a denial list published by the U.S. Government or the government of any country within the Authorized Territory; (d) for any end use that is prohibited by United States or other applicable law, including nuclear, missile, chemical biological weaponry or other weapons of mass destruction.

7.3 *Rights and Obligations on Termination*. Upon the termination of this SOW #9 for any reason, the parties will have the following rights and obligations: If and as requested by Brocade, IBM continues to support Brocade Products installed at IBM End User sites in the Authorized Territory in accordance with the terms of this SOW #9 for a period of up to twelve (12) months following termination or as agreed upon by the Parties as a "transition period". Upon expiration of the transition period, Brocade will assume responsibility, for the maintenance and support of such installed Brocade Products

7.4 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.

7.4.1 Based on evaluation of the Specifications, Supplier takes except to the following provisions.

7.4.1 Specification 46G3772

- Sec 2.2: 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 IBM to be reported to IBM.
  - Section 2.3.2 remove the requirement to report the approximate weight in grams for the substance present in the part supplied to IBM to be reported to IBM.
  - Section 2.4 Plastic Components Marking in accordance with ISO 11469-05. Supplier does not use any of the listed "Commonly Used Resins.

7.4.2 Specification 53P6233

- Section 2.3.2 Requirement for Printed Circuit Boards. Supplier will use Sn/Pb HASL coated boards for all the products until conversion to a Pb-Free process.
  - Section 2.3.4 Acceptable Uses of Leaded Solder. Supplier will continue to use components with Sn/Pb solder- solder includes all materials that become part of the final solder joint, including solder finishes on component leads or PCBs until such time Sn/Pb solder can be eliminated from the suppliers products

8.0 COMMUNICATIONS COORDINATORS

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

BUSINESS COORDINATORS

	FOR SUPPLIER	**FOR BUYER**
Name	Maintenance Contracts (for QSP Support Orders) Global Services Program Management (for other business issues related to QSP)	Andrew Cusimano
Address	130 Holger Way San Jose, CA 95134	930 Sylvan Ave 1st FL Englewood Cliffs, NJ 07632
Phone		201-608-8226
Email	For non-EMEA QSP Support Orders: maintcontracts@brocade.com For QSP Support Orders in EMEA: maintcontractsEMEA@brocade.com For GS Program Management: qsppartner@brocade.com	kooz@us.ibm.com

TECHNICAL COORDINATORS

	FOR SUPPLIER	**FOR BUYER**
Name	Technical Engagement	Caroline Bussemas
Address	130 Holger Way San Jose, CA 95134	3039 E Cornwallis RD P.O. BOX 12195 Research Triangle Park, NC 27709
Phone	+1-800-752-8061 +1-408-333-6061	720-396-6652
Email	support@brocade.com	bussema1@us.ibm.com

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:

	FOR SUPPLIER	**FOR BUYER**
Name	General Counsel Legal Department	Procurement Department
Address	130 Holger Way San Jose, CA 95134	2455 SOUTH RD POUGHKEEPSIE, NY 12601-5400
Phone	+1-408-333-5547	845-433-9158
Fax	+1-408-333-5630	845-491-5473

ACCEPTED AND AGREED TO:
International Business Machines Corporation

By: /s/ Andrew V. Cusimano 4/8/11
Buyer Signature Date
Andrew V. Cusimano
Printed Name
Advisory Procurement Professional
Connectivity Council
Title & Organization
Buyer Address:
1 New Orchard Road
Armonk, NY 10504

ACCEPTED AND AGREED TO:
Brocade Communications Systems, Inc.

By: /s/ Lisa Ludgate
Supplier Signature Date 4-8-2011

Printed Name
Lisa Ludgate, Director Global Services

Title & Organization
Supplier Address:
130 Holger Way
San Jose, CA 95134

ACCEPTED AND AGREED TO:
Brocade Communications Systems Switzerland, SarL

By: /s/ Alberto Soto

Supplier Signature	Date 08-April-2011

Printed Name
Alberto SOTO, Vice President EMEA

Title & Organization
Supplier Address:
130 Holger Way
San Jose, CA 95134

BROCADE
R. Borders /s/ RB
Legal Approved on: 4/7/2011

<u>**EXHIBIT A**</u>

BROCADE SUPPORTED PRODUCT MATRIX, PARTNERSHIP TIER and AUTHORIZED TERRITORY

Upon execution of the SOW #9 and completion of the appropriate certification and training required by Brocade under the terms of this Agreement, IBM is authorized to provide support on the following Brocade Products:

1. BROCADE PRODUCTS:

200E
300
4100
4900
5000
5100
5300
7420
7500
7500E
7800
8000
24000 – 16 port Blade
24000 – 32 port
48000
DCX
DCX4S
FR4-18i
Eclipse 1620
Eclipse 2640
Sphereon 4400
Sphereon 4700
Intrepid 6140
Intrepid 10000

1.2 Brocade may, at its sole discretion and upon request by IBM, amend this Exhibit A in writing, to include new Brocade Products as they become available.

2. IBM is approved to provide support for the above Brocade Products in the following Authorized Territory(ies):

[<u>**Worldwide**</u>]

EXHIBIT B

SUPPORT SERVICES

FOR BROCADE PRODUCTS or SUPPORTED THIRD PARTY PRODUCTS:

IBM will provide technical Support Services as reasonably required to support its End Users in the Authorized Territory, as set forth under the SOW #9. These services will include, but are not necessarily limited to the activities outlined in the table below.

IBM will provide Frontline Support (initial problem identification and analysis) and Onsite Support. And Brocade will provide Backline Support (product fixes, updates, and/or functional enhancements and problem notification) as generally made available by Brocade to its Qualified Service Providers and customers. This support is applicable to supported releases of Software. Frontline and Backline Support are described in more detail below.

	Support Responsibilities	
	Sale of Support Contract to End User Customer	
1	Establishing their own service levels to the customer and offering their own brand of End User Support contracts for warranty and maintenance services.	IBM
2	Manage the renewal contract process with the End User.	IBM
	Training	
3	Maintain technical support staff who are conversant in English and who are fully trained and qualified to perform such Support Services as provided in Section 4 of the Agreement.	IBM
	Installation and Configuration of Product	
4	Perform Product installation, configuration, and reconfiguration, including: a. Performing all End User customer physical installations and configuration changes, including hardware and software upgrades and moves, add and change activities. Or validating that the End User customer has properly installed and configured the product. b. Creating and installing system configuration images. Performing system configuration image backup for disaster recovery purposes. Or validating that the customer has created, installed, and backed up systems configuration images. c. Ensuring that configurations meet Brocade's support and compatibility guidelines listed in Brocade's Data Center Ready Compatibility Matrix for SAN products.	IBM
5	Purchase and install a Brocade certified modem to enable remote, dial-in communication for each Product in use if applicable to the Product set being supported.	IBM
	Call Center and Onsite Support	
6	Establish a centralized remote diagnostic and support center.	IBM
7	Register for partner level access to technical documentation, release notes, software and firmware updates, etc.	IBM
8	Provide Brocade with a list of Brocade certified and trained technical support staff. Only those listed trained technical support personnel are authorized to contact Brocade for support.	IBM
9	Perform First Call Support, including: a. Staffing and maintaining a 7×24 Call Center in the Authorized Territory for calls from End User customers b. Receiving first call from End User customer. Help desk personnel are required to be proficient in English. c. Collecting and verifying entitlement information. d. Collecting problem statement and problem severity definition. e. Isolating problems to Brocade Product. f. Entering call in CRM. g. Escalating to Brocade Technical Engagement Center when necessary providing serial number, detailed description of problem and severity level.	IBM
10	Perform Frontline Support (initial problem identification and analysis) including: a. Searching database and Brocade-provided information for known problems/solutions b. Determining if failure is caused by configuration, externals, microcode or hardware. c. Referring to network diagram or topology and initiating remote dial-in into the customer network if applicable to the Product being supported. d. Decoding error messages. e. Gathering trace information and dump information.	IBM

	f. Verifying Release level and send updates if necessary.	
	g. Providing action plan to Brocade sustaining engineering when applicable.	
	h. Running system diagnostics to assist in problem determination.	
	i. For Professional tier partners, having a technical support lab containing the appropriate Brocade Products to be able to reproduce errors for troubleshooting purposes.	
11	Backline Support includes the following:	Brocade
	a. Providing in-depth technical assistance for reported problems.	
	b. Analyzing trace and dump information.	
	c. Determining if failure was caused by microcode defects or hardware defects.	
	d. If the problem was caused by a Software defect, determining the Software module and line of microcode and recommended corrective action to the microcode.	
	e. Providing action plan to Brocade sustaining engineering when applicable.	
	f. Performing detailed analysis of gathered traces and processor dumps to confirm defect.	
	g. Developing, testing and releasing Patches or work-around solutions.	
	h. Driving Product defects into Brocade sustaining engineering for permanent fix for a future release.	
12	Implement hardware, software and firmware fixes as directed by Brocade technical support	IBM
13	If problem is diagnosed to be issue with defective hardware, perform physical removal and replacement of defective hardware with spare part from IBM's inventory.	IBM
	Sparing	
14	Purchase and maintain inventories of spare parts sufficient to ensure timely maintenance of installed Products within response time contracted with the End User customer, as outlined in section 5.5.	IBM
15	Request RMA from Brocade for the repair or replacement of the defective parts in order to replenish IBM's spares inventory.	IBM
	Communication	
16	Make technical support personnel available during non-business hours for situations that require immediate attention.	IBM
17	Cooperate with Brocade in dealing with any End User customer complaints concerning the Products and take any action reasonably requested by Brocade to resolve such complaints.	IBM
18	Communicate product defects on existing product and also enhancement requests for consideration in future products.	IBM
19	Provide to Brocade on request a detailed log of all End User customer inquiries about, and requests for, support in a form requested by Brocade, together with a description of the actions taken by IBM to answer or resolve each such inquiry or request.	IBM

Brocade reserves the right to re-evaluate IBM partner's tier, increase Support Fees or charge its then current Time and Materials ("T&M") rates in the event that the IBM is not fulfilling its obligations as set forth above.

FOR RESALE PRODUCTS: Resale Products may be ordered by IBM for End User customers with the understanding that IBM shall contract directly with the manufacturer with respect to all warranty and support for Resale Products. Brocade's sole responsibility for Resale Products is limited to reasonable commercial efforts to arrange for procurement and shipping of Resale Products. To the extent that such Resale Products come to IBM with an express warranty offered by the manufacturer, these warranties, including those expressly set forth in manufacturer's literature, are in lieu of all other warranties. Warranty and/or maintenance support, if available, may be obtained by contacting the manufacturer. Should Brocade assist IBM in procuring maintenance support from the manufacturer, Brocade shall in no way be responsible for any aspect of the fulfillment of the manufacturer's obligations thereunder. Such obligations rest solely with the manufacturer. Notwithstanding anything to the contrary in this SOW #9, Brocade shall have no obligations or liabilities to IBM for Resale Products other than as stated in this Section. Should manufacturer become, for any reason, unable to fulfill its obligations under the applicable warranties and/or maintenance support services provided to IBM, Brocade shall have no liability, obligation or responsibility as to the fulfillment of any manufacturer's warranty or maintenance obligations, in any form, applicable to any Resale Products.

Brocade Support Engagement Policy and Procedures

Brocade Technical Engagement Center (TEC) Telephone Numbers:

Toll Free Number:
Toll Free Number for Continental US: 1-800-752-8061
Toll Free Number for other select international locations:
http://www.brocade.com/services-support/contacts_international.page

Toll Number:
+1-408-333-6061

Email Address:
SAN Products: support@brocade.com

Brocade's Technical Engagement Center (TEC) is the first point of contact. IBM shall document and list authorized contacts for the program using individual address, not alias addresses. Only those on the list of trained technical support personnel are authorized to contact Brocade's Technical Engagement Center.

IBM shall assign the case severity when engaging Brocade support. The assigned case severity is what defines the escalation timeline that will be used. If IBM does not assign the case severity, it will default to a Severity 4 case (problem ticket).

IBM may request an escalation to Brocade support management at any time by requesting to speak with a support manager.

Problem Severity Definitions

Severity 1 (Critical)

Customer's systems are down or performance is severely impacted due to but not limited to data loss or data corruption. No other work can continue until the issue is resolved. No workaround is yet available.

Severity 2 (High)

The product's functions or network operations are impaired or unavailable. The customer can still address other related issues, but a valid workaround is not yet available.

Severity 3 (Medium)

A system or product function might have failed, but workflow is not impacted at the systems level. Brocade Support knows about the issue, and a workaround is available.

Severity 4 (Low)

The customer acknowledges that the issue is non-critical and considers resolution within the next maintenance or major release adequate. The customer can submit a Request for Enhancement (RFE) to modify existing products or product documentation.

RULES OF THE BROCADE COMMUNICATIONS SYSTEMS, INC.
2009 STOCK PLAN FOR FRENCH GRANTEES

I. GENERAL.

1. Introduction.

The board of directors (the "Board") of Brocade Communications Systems, Inc. (the "Company") has established the Brocade Communications Systems, Inc. 2009 Stock Plan, as amended from time to time (the "U.S. Plan") for the benefit of certain eligible persons, including employees of the Company and its parent and subsidiary corporations, including its French subsidiary corporations of which the Company holds directly or indirectly at least 10% of the share capital (the "French Subsidiaries"). Section 4(b) of the U.S. Plan specifically authorizes the Administrator (as defined in the U.S. Plan) to approve the forms of award agreements used under the U.S. Plan; to determine the terms and conditions, not inconsistent with the terms of the U.S. Plan, of an award granted under the U.S. Plan; to prescribe, amend and rescind rules and regulations relating to sub-plans established for the purposes of satisfying applicable foreign laws; and to make all other determinations deemed necessary or advisable for administering the U.S. Plan. The Administrator has determined that it is advisable to establish a sub-plan for the purpose of permitting stock options and restricted stock units granted to eligible persons to qualify for the favorable tax and social security treatment available for such grants in France. The Administrator, therefore, intends to establish a sub-plan of the U.S. Plan for the purpose of granting stock options that qualify for the favorable tax and social security treatment in France applicable to stock options granted under the Sections L. 225-177 to L. 225-186-1 of the French Commercial Code, as amended ("French-qualified Options"), and restricted stock units which qualify for the favorable tax and social security treatment in France applicable to shares granted for no consideration under Sections L. 225-197-1 to L. 225-197-6 of the French Commercial Code, as amended ("French-qualified Restricted Stock Units"), to qualifying participants who are resident in France for French tax purposes and/or subject to the French social security regime (the "French Grantees").

The terms of the U.S. Plan applicable to stock options and restricted stock units, as set out in Appendix 1 hereto, shall, subject to the limitations in the following rules, constitute the Rules of the Brocade Communications Systems, Inc. 2009 Stock Plan for French Grantees (the "French Plan").

Under the French Plan, a French Grantee will be granted Options and Restricted Stock Units only as defined in Section I.2 hereunder. The provisions of the U.S. Plan permitting the grant of Stock Appreciation Rights, Restricted Stock, Performance Shares, and Performance Units are not applicable to grants made under the French Plan.

2. Definitions.

Any capitalized term used in this French Plan without definition shall have the meaning ascribed to such term in the U.S. Plan.

The terms set forth below shall have the following meanings:

(a) The term “Closed Period” means specific periods as set forth in Section L. 225-197-1 of the French Commercial Code, as amended, during which French-qualified Options cannot be granted, as described in Section II.1 below, including:

(i) Ten quotation days preceding and following the disclosure to the public of the consolidated financial statements or the annual statements of the Company;

(ii) Any period during which the corporate management of the Company possesses material information which could, if disclosed to the public, significantly impact the quotation of the Shares, until ten quotation days after the day such information is disclosed to the public; or

(iii) twenty quotation days following the distribution of a dividend (i.e., the ex-dividend date) or a general right to subscribe to the Company’s Shares (i.e., a rights offering).

The term “Closed Period” means the periods set out in (i) and (ii) only for the sale or transfer of Shares as described in Section III.1(b) below. If French law or regulations are amended after adoption of this French Plan to modify the definition and/or the applicability of the Closed Periods to French-qualified Options and/or French-qualified Restricted Stock Units, such amendments shall become applicable to any French-qualified Options and French-qualified Restricted Stock Units granted under this French Plan, to the extent permitted or required by French law.

For French-qualified Options only, if the Company grants options on a date during an applicable Closed Period, the Date of Grant for French Grantees shall be the first date following the expiration of the Closed Period, provided such date is not prohibited under the U.S. Plan rules.

(b) The term “Date of Grant” shall be the date set out in Section 21 of the U.S. Plan on which the Administrator both:

(i) designated the French Grantee; and

(ii) specified the terms and conditions of the French-qualified Options and/or French-qualified Restricted Stock Units, including the exercise price of the French-qualified Options; the number of Shares to be issued at a future date (or the method by which the number of Shares to be issued at a future date is to be determined); the conditions for the vesting of the French-qualified Options and/or French-qualified Restricted Stock Units; the conditions for the issuance of the Shares underlying the French-qualified Restricted Stock Units by the Company, if any; the conditions for exercising the French-qualified Options; and the conditions for the transferability of the Shares once issued, if any.

(c) The term “Disability” means disability as defined in the U.S. Plan that also constitutes a disability under categories 2 and 3 of Section L. 341-1 of the French Social Security Code and subject to the fulfillment of related conditions.

(d) The term “Options” shall, in addition to the meaning set out in the U.S. Plan under Section 2(w), include the following:

(i) purchase options, which are rights to acquire Shares repurchased by the Company prior to the date on which the Options become exercisable; or

(ii) subscription options, which are rights to subscribe for newly-issued Shares.

(e) The term “Restricted Stock Unit” shall have the meaning set out in the U.S. Plan as limited by the following definition: a promise by the Company to issue to a French Grantee, at a future date, for no cash consideration, one Share for each Restricted Stock Unit granted to a French Grantee, provided the French Grantee remains employed by the French Subsidiary or the Company, and for which any dividend and voting rights are attached only upon the issuance of the Shares at the time of vesting of the Restricted Stock Units.

(f) The term “Shares” means shares of common stock of the Company as set out in the U.S. Plan;

(g) The term “Vesting Date” for Restricted Stock Units means the relevant date on which Restricted Stock Units are vested, as specified by the Administrator, and the French Grantees are entitled to receive the Shares of the Company underlying the Restricted Stock Units. To qualify for the French favorable tax and social security regime, such Vesting Date shall not occur prior to the second anniversary of the Date of Grant, or such other period as is required to comply with the minimum mandatory vesting period applicable to French-qualified Restricted Stock Units under Section L. 225-197-1 of the French Commercial Code, as amended, or the relevant sections of the French Tax Code or the French Social Security Code, as amended, to benefit from the favorable tax and social security regime and provided any additional conditions for the vesting that may be provided for in the Restricted Stock Unit Agreement are satisfied.

3. <u>Eligibility to Participate</u>.

(a) Notwithstanding any other term of this French Plan, French-qualified Options and French-qualified Restricted Stock Units may be granted only to French Grantees who hold less than ten percent (10%) of the outstanding Shares of the Company (including unvested Restricted Stock Units and unvested Options) and who otherwise satisfy the eligibility conditions of Section 5 of the U.S. Plan.

(b) Subject to Section I.3(c) below, the following persons shall be eligible to receive, at the discretion of the Administrator, French-qualified Options and French-qualified Restricted Stock Units under this French Plan, provided they also satisfy the eligibility conditions of Section 5 of the U.S. Plan:

(i) any French Grantee who, on the Date of Grant and to the extent required under French law, is (A) employed under the terms and conditions of an employment contract (“*contrat de travail*”) by a French Subsidiary, or (B) a managing corporate officer (as described in I.3(c) below) of a French Subsidiary, and

(ii) to the extent permissible under French tax and social security laws, including guidelines and specific tax or social security rulings issued by French tax and social security authorities, any individual who is otherwise employed by the Company or a Subsidiary even if the individual is not French tax resident and/or subject to French social contribution regime at the Date of Grant and such an individual shall be considered, to the extent applicable (as determined by the Administrator in its sole discretion), as a French Grantee for purposes of this French Plan.

(c) French-qualified Options and French-qualified Restricted Stock Units may not be issued to corporate officers of French Subsidiaries, other than the managing corporate officers (*i.e.,* "*mandataires sociaux*," *Président du Conseil d'Administration, Directeur Général, Directeur Général Délégué, Membre du Directoire, Gérant de Sociétés par actions*) unless the corporate officer is an employee of a French Subsidiary, as defined by French law.

4. Number of Shares Granted and Shareholder Approval.

The U.S. Plan and the share limitation as set forth in Section 3(a) of the U.S. Plan have been authorized by the Company's shareholders for grants to French Grantees and such authorization is intended to meet the requirements of Sections L. 225-177 and L. 225-179 of the French Commercial Code for French-qualified Options and of Section L.225-197-1 of the French Commercial Code for French-qualified Restricted Stock Units, to the extent applicable to grants made by the Company.

5. Delivery of Shares Only.

Only Shares and not cash payments may be delivered to any French Grantee as a result of the French-qualified Options and French-qualified Restricted Stock Units granted under this French Plan.

6. Non-Transferability.

Notwithstanding any provision in the U.S. Plan to the contrary and, except in the case of death, French-qualified Options and French-qualified Restricted Stock Units cannot be transferred to any third party. In addition, during the lifetime of the French Grantee, the French-qualified Options are exercisable only by the French Grantee, subject to Sections II.3(c) and II.4 below. The Shares underlying the French-qualified Restricted Stock Units may not be transferred to any third party and shall be issued only to the French Grantee during his or her lifetime, subject to Sections III.1(a) and III.2 below.

7. **Disqualification of French-qualified Options and French-qualified Restricted Stock Units.**

In the event changes are made to the terms and conditions of the French-qualified Options and/or French-qualified Restricted Stock Units due to any requirements under the Applicable Laws, or by decision of the Company's shareholders, the Board or the Administrator, the Options and/or Restricted Stock Units may no longer qualify as French-qualified Options and French-qualified Restricted Stock Units.

If the Options and/or Restricted Stock Units no longer qualify as French-qualified Options and/or French-qualified Restricted Stock Units, the Administrator may, in its sole discretion, determine to lift, shorten or terminate certain restrictions applicable to the vesting or exercisability of the Options, the vesting of the Restricted Stock Units or to the sale of the Shares underlying the Options and/or Restricted Stock Units which have been imposed under this French Plan or in the applicable Award Agreement delivered to the French Grantee in order to achieve the specific tax and social security treatment applicable to French-qualified Options and/or French-qualified Restricted Stock Units. Should the awards no longer be qualified the French Grantee shall be liable to French income tax and social security to the extent permissible under French law.

8. **Employment Rights.**

The adoption of this French Plan shall not confer upon the French Grantees, or any employees of a French Subsidiary, any employment rights and shall not be construed as a part of any employment contracts that a French Subsidiary has with its employees.

9. **Amendments.**

Subject to the terms of the U.S. Plan, the Board or Administrator reserves the right to amend or terminate this French Plan at any time in accordance with applicable French law.

II. FRENCH-QUALIFIED OPTIONS.

1. **Closed Period.**

French-qualified Options may not be granted during a Closed Period to the extent such Closed Periods are applicable to French-qualified Options granted by the Company. If the Company grants options on a date during an applicable Closed Period, the Date of Grant for French Grantees shall be the first date following the expiration of the Closed Period, provided such date is not prohibited under the U.S. Plan rules.

2. **Conditions of the French-qualified Options.**

(a) The exercise price and number of underlying Shares shall not be modified after the Date of Grant, except as provided in Sections II.5 of this French Plan, or as otherwise authorized by French law. Any other modification permitted under the U.S. Plan may result in the Option no longer qualifying as a French-qualified Option.

(b) The French-qualified Options will vest and become exercisable pursuant to the terms and conditions set forth in the U.S. Plan, this French Plan, and the applicable Award Agreement delivered to each French Grantee.

(c) The exercise price per share of Common Stock payable pursuant to French-qualified Options granted under this French Plan shall be fixed by the Administrator on the Date of Grant. In no event shall the exercise price per share of Common Stock be less than the greater of the following:

(i) with respect to purchase stock options, the higher of either 95% of the average quotation price of the Shares during the 20 quotation days immediately preceding the Date of Grant or 95% of the average purchase price paid for such Shares by the Company;

(ii) with respect to subscription stock options, 95% of the average quotation price of such Shares during the 20 quotation days immediately preceding the Date of Grant; and

(iii) 100% of the Fair Market Value per Share on the Date of Grant as set forth in Section 9(a) the U.S. Plan.

3. Exercise of a French-qualified Option.

(a) At the time a French-qualified Option is granted, the Administrator shall fix the period within which the French-qualified Option vests and may be exercised and shall determine any conditions that must be satisfied before the French-qualified Option may be exercised. Specifically, the Administrator may provide for a restriction period measured from the Date of Grant, for the vesting or the exercise of a French-qualified Option, or for the sale of Shares acquired pursuant to the exercise of a French-qualified Option, designed to obtain the specific tax and social security treatment pursuant to Section 163 bis C of the French Tax Code, as amended. Such restriction period for the vesting or the exercise of a French-qualified Option or the sale of Shares shall be set forth in the applicable Award Agreement. The holding period of the Shares acquired upon exercise of French-qualified Option shall not exceed three (3) years as from the exercise date of a French-qualified Option, or such other period as may be required to comply with French law.

(b) Upon exercise of a French-qualified Option, the full exercise price and any required withholding tax and/or social security contributions shall be paid by the French Grantee as set forth in the applicable Award Agreement. Under a cashless exercise program, the French Grantee may give irrevocable instructions to a stockbroker to properly deliver the exercise price to the Company. No delivery, surrendering or attesting to the ownership of previously owned Shares having a fair market value on the date of delivery equal to the aggregate exercise price of the Shares may be used to pay the exercise price.

(c) In the event of the death of a French Grantee, his or her French-qualified Options shall thereafter be immediately vested and exercisable in full under the conditions set forth by Section II.4 of this French Plan.

(d) If a French Grantee is terminated or ceases to be employed by the Company or a French Subsidiary, his or her French-qualified Options will be exercisable according to the provisions of the Award Agreement.

(e) If a French Grantee is terminated or ceases to be employed by the Company or a French Subsidiary by reason of Disability, his or her French-qualified Options may benefit from the specific tax and social security treatment, even if the date of sale of the Shares subject to the French-qualified Options occurs prior to the expiration of the minimum holding period of the Shares, as provided for by Section 163 bis C of the French Tax Code, as amended.

(f) The Shares acquired upon exercise of a French-qualified Option will be recorded in an account in the name of the French Grantee and must be held with the Company or a broker or in such manner as the Company may otherwise determine in order to ensure compliance with applicable laws including any necessary holding periods.

To the extent and as long as applicable to French-qualified Options granted by the Company, a specific holding period for the Shares or a restriction on exercise of the Options shall be imposed in the Award Agreement for any French Grantee who qualifies as a managing director of the French Subsidiary or has comparable positions at the level of the Company.

4. Death.

In the event of the death of a French Grantee while he or she is actively employed, all French-qualified Options shall become immediately vested and exercisable and may be exercised in full by the French Grantee’s heirs or the legal representative of his or her estate for the six (6) month period following the date of the French Grantee’s death or such other period as may be required to comply with French law. In the event of the death of a French Grantee after termination of active employment, the treatment of French-qualified Options will be as set forth in the Award Agreement. Any French-qualified Option that remains unexercised shall expire six (6) months following the date of the French Grantee’s death or after expiration of such other period as may be required to comply with French law. The six (6) month exercise period (or such other period as may be required to comply with French law) will apply without regard to the term of the French-qualified Option as described in Section II.6 of this French Plan.

5. Adjustments upon Changes in Capitalization or Change in Control.

In the event of a change in the Company’s capitalization or a Change in Control as set forth in Section 18 of the U.S. Plan, adjustment to the terms and conditions of the French-qualified Option or underlying Shares shall be made only in accordance with the U.S. Plan and pursuant to applicable French legal and tax rules. Nevertheless, the Administrator, at its discretion, may make adjustments in the case of a transaction for which adjustments are not authorized under French law, in which case, the Options may no longer qualify as French-qualified Options and the favorable tax and social security treatment may be lost.

Assumption or substitution of the Option in the case of a Change in Control as well as an acceleration of vesting or the lifting of a holding period or any other mechanism implemented upon a Change in Control, or in any other event, may result in the Options no longer being eligible for the favorable French tax and social security treatment.

6. Term of French-qualified Options.

French-qualified Options granted pursuant to this French Plan will expire no later than six and a half (6 1/2) years from the Date of Grant, unless otherwise specified in the applicable Award Agreement. The French-qualified Option term will be extended only in the event of the death of a French Grantee, but in no event will any French-qualified Option be exercisable beyond six (6) months following the date of death of the French Grantee or such other period as may be required to comply with French law.

7. Interpretation.

In the event of any conflict between the provisions of this French Plan and the U.S. Plan, the provisions of this French Plan shall control for any grants of French-qualified Options made to French Grantees.

It is intended that Options granted under this French Plan shall qualify for the specific tax and social security treatment applicable to stock options granted under Sections L. 225-177 to L. 225-186-1 of the French Commercial Code, as amended, and in accordance with the relevant provisions set forth by French tax law and the French tax administration, but no undertaking is made by the Company to maintain such status. The terms of this French Plan shall be interpreted accordingly and in accordance with the relevant provisions set forth by French tax and social security laws and relevant guidelines published by French tax and social security administrations and subject to the fulfillment of legal, tax and reporting obligations, if applicable.

III. FRENCH-QUALIFIED RESTRICTED STOCK UNITS.

1. Conditions of the French-qualified Restricted Stock Units.

(a) Vesting of French-Qualified Restricted Stock Units

Notwithstanding any other provision of the U.S. Plan, French-qualified Restricted Stock Units will not vest prior to the second anniversary of the Date of Grant or such other minimum period in accordance with the Vesting Date defined under Section I.2(g) above and provided any additional conditions for the vesting that may be provided in the Award Agreement are satisfied. However, notwithstanding the Vesting Date requirements described above, in the event of the death of a French Grantee, all of his or her outstanding French-qualified Restricted Stock Units shall become vested under the conditions set forth in Section III.2 of this French Plan.

(b) Transfer of Shares

The sale or transfer of the Shares issued pursuant to the French-qualified Restricted Stock Units held by the French Grantees shall not occur prior to the relevant anniversary of the Vesting Date specified by the Administrator and in no case prior to the second anniversary of the Vesting Date, or such other period as is required to comply with the minimum mandatory holding period applicable to shares underlying French-qualified Restricted Stock Units under Section L. 225-

197-1 of the French Commercial Code, as amended, or under the relevant sections of the French Tax Code or the French Social Security Code, as amended, to benefit from the favorable tax and social security regime. This holding period applies even after the French Grantee is no longer an employee or corporate officer of a French Subsidiary, except as provided for in Section III.3 of this French Plan.

In addition, the Shares may not be sold or transferred during certain Closed Periods as provided for by Section L. 225-197-1 of the French Commercial Code, as amended, and as interpreted by the French administrative guideline, to the extent Closed Periods are applicable to Shares underlying French-qualified Restricted Stock Units.

To the extent required for French-qualified Restricted Stock Units, the Administrator may specify a specific holding period for the Shares underlying the French-qualified Restricted Stock Units with respect to French Grantees who qualify as managing corporate officers under French law ("*mandataires sociaux*"), as defined under Section I.3(c) of this French Plan, or who have a comparable position in any other company within the Company group.

(c) French Grantee's Account

The Shares issued to the French Grantee shall be recorded in the name of the French Grantee and held in an account with the Company or a broker or in such other manner as the Company may otherwise determine to ensure compliance with Applicable Laws, including any required holding periods provided by French law.

2. Death and Disability.

In the event of the death of a French Grantee, the French-qualified Restricted Stock Units held by the French Grantee at the time of death shall become immediately transferable to the French Grantee's heirs. The Company shall issue the underlying Shares to the French Grantee's heirs, at their request, provided the heirs contact the Company within six (6) months following the death of the French Grantee or such other period as may be required to comply with French law If the French Grantee's heirs do not request the issuance of the Shares underlying the French-qualified Restricted Stock Units within six (6) months following the French Grantee's death (or such other period as may be required to comply with French law), the French-qualified Restricted Stock Units will be forfeited.

If a French Grantee dies or ceases to be employed by the Company or a French Subsidiary or any Subsidiary by reason of his or her Disability (as defined in this French Plan), the French Grantee's heirs or the disabled French Grantee, as applicable, shall not be subject to the restrictions on the sale or transfer of Shares set forth in Section III.1(b) of this French Plan.

3. Adjustments upon Changes in Capitalization or Change in Control.

In the event of a change in the Company's capitalization or a Change in Control as set forth in Section 18 of the U.S. Plan, adjustment to the terms and conditions of the French-qualified Restricted Stock Units or underlying Shares shall be made only in accordance with the U.S. Plan and pursuant to applicable French legal and tax rules. Nevertheless, the Administrator, at its discretion, may make adjustments in the case of a transaction for which adjustments are not authorized under French law, in which case, the Restricted Stock Units may no longer qualify as French-qualified Restricted Stock Units and the favorable tax and social security treatment may be lost.

Assumption or substitution of the Restricted Stock Units in the case of a Change in Control as well as an acceleration of vesting or the lifting of a holding period or any other mechanism implemented upon a Change in Control, or in any other event, may result in the Restricted Stock Units no longer being eligible for the favorable French tax and social security treatment.

4. Interpretation.

It is intended that the Restricted Stock Units granted under this French Plan shall qualify for the favorable tax and social security treatment applicable to shares granted for no consideration under Sections L. 225-197-1 to L. 225-197-6 of the French Commercial Code, as amended, and in accordance with the relevant provisions set forth by French tax and social security laws, but no undertaking is made to maintain such status.

The terms of the French Plan shall be interpreted accordingly and in accordance with the relevant provisions set forth by French tax and social security laws, as well as the French tax and social security administrations and the relevant guidelines released by the French tax and social security authorities and subject to the fulfillment of any applicable legal, tax and reporting obligations, if applicable.

5. Effective Date.

The French Plan is effective as of May 25, 2011.

Appendix 1

[Insert U.S. Plan]

Brocade Communications Systems, Inc.
130 Holger Way
San Jose, CA 95134

Notice of Grant of Stock Options
for French Grantees

French Grantee Name		**Option Number:**	**00000XXXX**
Address Line 1		**Plan:**	**NSO**
Address Line 2		**ID:**	**xxx-xx-xxx**

Effective as of the Date of Grant, you have been granted an option to buy **x,xxx** shares of Brocade Communications Systems, Inc. (the "Company") common stock (the "Option") at **$xx.xx** per share (the "Exercise Price") under the Company's 2009 Stock Plan and the Rules of the Brocade Communication Systems, Inc. 2009 Stock Plan for French Grantees (the "French Plan") (together the "Plan"). The Option is subject to the terms of the Plan, this Notice of Grant of Stock Options for French Grantees (the "Notice of Grant") and the Stock Option Agreement for French Grantees (the "Agreement"), all of which are incorporated herein by reference.

The total Exercise Price of the shares granted is **$xx,xxx.xx**.

Shares in each period will become fully vested on the date shown.

Shares	Vest Type	Full Vest	Expiration Date
X,XXX	On Vest Date [**one year from grant]**		
X,XXX	Monthly		
X,XXX	Monthly		
X,XXX	Monthly		

By signing and returning this document providing for the terms and conditions of your Option grant, you confirm having read and understood the documents relating to this grant (the Plan, the French Plan, and the Agreement) which were provided in English language. You accept the terms of those documents accordingly.

En signant et renvoyant le présent document d écrivant les termes et conditions de votre attribution d'Options, vous confirmez ainsi avoir lu et compris les documents relatifs à cette attribution (le Plan Américain, le Plan Français, et l'Accord) qui ont été communiqués en langue anglaise. Vous acceptez les termes en connaissance de cause.

French Grantee Name ______________________ **Date** ______________________

BROCADE COMMUNICATIONS SYSTEMS, INC.
2009 STOCK PLAN
STOCK OPTION AGREEMENT FOR FRENCH GRANTEES

A. Grant of Option.

The Administrator hereby grants to the French Grantee named in the Notice of Grant attached as Part I of this Stock Option Agreement for French Grantees (the "Option Agreement") an option (the "Option") to purchase the number of Shares, as set forth in the Notice of Grant, at the exercise price per share set forth in the Notice of Grant (the "Exercise Price"), subject to the terms and conditions of the Brocade Communication Systems, Inc. 2009 Stock Plan (the "U.S. Plan") and the Rules of the Brocade Communication Systems, Inc. 2009 Stock Plan for French Grantees (the "French Plan") (together the "Plan"), which are incorporated herein by reference. Subject to Section 22(c) of the U.S. Plan, in the event of a conflict between the terms and conditions of the Plan and the terms and conditions of this Option Agreement, the terms and conditions of the Plan will prevail.

This Option is intended to qualify for favorable tax and social security treatment applicable to stock options granted under Section L.225-177 to L.225-186-1 of the French Commercial Code, as amended and in accordance with the relevant provisions set forth by the French tax and social security laws and the French tax and social security administrations. Certain events may affect the status of the Option as a French-qualified Option and the Option may be disqualified in the future. The Company does not make any undertaking or representation to maintain the qualified status of the Option. If the Option is modified, adjusted, or administered in a manner in keeping with the terms of the U.S. Plan or as mandated as a matter of law, including laws relating to obligations for Tax-Related Items (as defined in Section F below), and the modification or adjustment is contrary to the terms and conditions of the French Plan, the Option may no longer qualify as a French-qualified Option. The French Grantee understands and agrees that, in the event the Option loses qualified status, the French Grantee will be responsible for paying personal income tax and the French Grantee's portion of social security contributions resulting from the exercise of the Option, the issuance of Option Shares and the sale of Option Shares and the French Grantee will not be entitled to any damages.

B. Vesting and Exercise of Option.

(a) Vesting. No Option shall vest or become exercisable prior to the day following the first anniversary of the Date of Grant (except in event of death or Disability (as defined in the French Plan).

(b) Right to Exercise. This Option is exercisable during its term in accordance with the Vesting Schedule set out in the Notice of Grant and the applicable provisions of the Plan and this Option Agreement.

(c) Method of Exercise. This Option is exercisable by delivery of written or electronic notice of exercise, in a form provided by the Administrator (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 French Grantee 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-Related Items (as defined below in Section H below)) 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 (as defined in Section C below).

No Shares will be issued pursuant to the exercise of this Option unless such issuance and exercise complies with Applicable Laws.

C. Method of Payment.

Payment of the aggregate Exercise Price will be by any of the following, or a combination thereof, at the election of the French Grantee:

(a) cash;

(b) check;

(c) net issue exercise, whereby the French Grantee 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 French Grantee 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 the French Grantee;

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);

(d) consideration received by the Company under a cashless exercise program implemented by the Company in connection with the Plan; or

(e) any combination of the foregoing methods of payment.

D. Holding Period for French-Qualified Options.

Shares acquired upon exercise may not be sold or transferred before the expiration of the applicable holding period for French-qualified Options set forth by Section 163 bis C of the French Tax Code, as amended, except as provided in the French Plan or as otherwise in keeping with French law. Under current law, the holding period is four years from the Date of Grant, but shall not be more than three years from the date on which the French Grantee exercises his or her Option.

If the French Grantee exercises the vested portion of the Option after the first anniversay of the Date of Grant and before the expiration of the four-year holding period, the French Grantee shall not be permitted to sell or transfer the Shares for the remaining portion of the four-year holding period.

The sale of Shares before the end of the four-year holding period following the Date of Grant will not result in the loss of the favorable tax and social security treatment in the event of the following special circumstances: (i) death or (ii) Disability (as defined in the French Plan).

E. Exercisability Upon Termination.

(a) This Option may be exercised for three months after the French Grantee ceases to be a Service Provider for reasons other than death or Disability (as defined under the French Plan).

(b) Upon the death of the French Grantee, this Option shall become immediately vested and exercisable. The French Grantee's heirs may exercise the Option within 6 months following the date of death, but any outstanding Options which remain unexercised shall expire 6 months following the date of death.

(c) Upon the Disability (as defined in the French Plan) of the French Grantee, this Option may be exercised for one year after the French Grantee ceases to be a Service Provider.

In no event may this Option be exercised later than the Expiration Date as set out in the Notice of Grant and Section F below.

F. Non-Transferability of Option.

Except as set forth in Section E(b) above, 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 the French Grantee only by the French Grantee. The terms of the Plan and this Option Agreement will be binding upon the executors, administrators, heirs, successors and assigns of the French Grantee.

G. Term of Option.

This Option may be exercised only within six and one-half (6 1/2) years from the Date of Grant (as defined in the French Plan) (the "Expiration Date"), as set out in the Notice of Grant, and may be exercised during such term only in accordance with the Plan and the terms of this Option Agreement.

H. Responsibility for Taxes

Regardless of any action the Company or the French Grantee's employer (the "Employer") takes with respect to any or all income tax (including U.S. federal, state, local and/or non-U.S. taxes), social insurance, payroll tax, payment on account or other tax-related items related to the French Grantee's participation in the Plan and legally applicable to the French Grantee ("Tax-Related Items"), the French Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the French

Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The French Grantee further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Option, including, but not limited to, the grant, vesting or exercise of the Option, the subsequent sale of Shares acquired pursuant to such exercise and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Option to reduce or eliminate the French Grantee's liability for Tax-Related Items or achieve any particular tax result. Further, if the French Grantee has become subject to tax in more than one jurisdiction between the date of grant and the date of any relevant taxable or tax withholding event, as applicable, the French Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

Prior to the relevant taxable or tax withholding event, as applicable, the French Grantee will pay or make adequate arrangements satisfactory to the Company and/or the Employer to satisfy all Tax-Related Items. In this regard, the French Grantee authorizes the Company and/or the Employer, or their respective agents, at their discretion, to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (i) withholding from the French Grantee's wages or other cash compensation paid to the French Grantee by the Company and/or the Employer; or (ii) withholding from proceeds of the sale of Shares acquired at exercise of the Option either through a voluntary sale or through a mandatory sale arranged by the Company (on the French Grantee's behalf pursuant to this authorization); or (iii) withholding in Shares to be issued at exercise of the Option.

To avoid any negative accounting treatment, the Company may withhold or account for Tax-Related Items by considering applicable minimum statutory withholding amounts or other applicable withholding rates. If the obligation for Tax-Related Items is satisfied by withholding in Shares, for tax purposes, the French Grantee is deemed to have been issued the full number of Shares subject to the exercised Options, notwithstanding that a number of the Shares are held back solely for the purpose of paying the Tax-Related Items due as a result of any aspect of the French Grantee's participation in the Plan.

Finally, the French Grantee shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of the French Grantee's participation in the Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the Shares or the proceeds of the sale of Shares, if the French Grantee fails to comply with the French Grantee's obligations in connection with the Tax-Related Items.

I. Nature of Grant.

In accepting the Option, the French Grantee acknowledges, understands and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature, and may be amended, suspended or terminated by the Company at any time;

(b) the grant of the Option is voluntary and occasional and does not create any contractual or other right to receive future grants of options, or benefits in lieu of options, even if options have been granted repeatedly in the past;

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

(d) the French Grantee's participation in the Plan shall not create a right to further employment with the Employer and shall not interfere with the ability of the Employer to terminate the French Grantee's employment or service relationship (if any) at any time;

(e) the French Grantee is voluntarily participating in the Plan;

(f) the Option and any Shares acquired under the Plan are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to Company or the Employer, and which is outside the scope of the French Grantee's employment or service contract, if any;

(g) the Option and any Shares acquired under the Plan are not intended to replace any pension rights or compensation;

(h) the Option and any Shares acquired under the Plan are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company**,** the Employer, or any subsidiary or affiliate of the Company;

(i) the Option grant and the French Grantee's participation in the Plan will not be interpreted to form an employment or service contract or relationship with the Company or any subsidiary or affiliate of Company;

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

(k) if the underlying Shares do not increase in value, the Option will have no value;

(l) if the French Grantee exercises the Option and acquires Shares, the value of such Shares may increase or decrease in value, even below the Exercise Price; and

(m) no claim or entitlement to compensation or damages shall arise from forfeiture of the Option resulting from termination of the French Grantee's employment by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws) and in consideration of the grant of the Option to which the French Grantee is otherwise not entitled, the French Grantee irrevocably agrees never to institute any claim against the Company or the Employer, waive his or her ability, if any, to bring any such claim, and release the Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the French Grantee shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims.

J. No Advice Regarding Grant.

The Company is not providing any tax, legal or financial advice, nor is the Company making any recommendations regarding the French Grantee's participation in the Plan, or the French Grantee's acquisition or sale of the underlying Shares. The French Grantee is hereby advised to consult with his or her own personal tax, legal and financial advisors regarding his or her participation in the Plan before taking any action related to the Plan.

K. ***Data Privacy.***

The French Grantee hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of the French Grantee's personal data as described in this Option Agreement and any other Option grant materials by and among, as applicable, the Employer, the Company and its subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing the French Grantee's participation in the Plan.

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

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

L. Governing Law.

The Option grant and the provisions of this Option Agreement are governed by, and subject to, the laws of the State of California, without regard to the conflict of law provisions. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by this grant or the Option Agreement, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted only in the courts of Santa Clara County, California, or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

M. NO GUARANTEE OF CONTINUED SERVICE.

THE FRENCH GRANTEE ACKNOWLEDGES AND AGREES THAT THE VESTING OF SHARES PURSUANT TO THE VESTING SCHEDULE HEREOF IS EARNED ONLY BY

CONTINUING AS A SERVICE PROVIDER OF THE COMPANY OR ONE OF ITS SUBSIDIARIES (AND NOT THROUGH THE ACT OF BEING HIRED, BEING GRANTED AN OPTION OR PURCHASING SHARES HEREUNDER). THE FRENCH GRANTEE FURTHER ACKNOWLEDGES AND AGREES THAT THIS OPTION AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREUNDER AND THE VESTING SCHEDULE SET FORTH HEREIN DO NOT CONSTITUTE AN EXPRESS OR IMPLIED PROMISE OF CONTINUED ENGAGEMENT AS A SERVICE PROVIDER FOR THE VESTING PERIOD, FOR ANY PERIOD, OR AT ALL, AND SHALL NOT INTERFERE WITH THE FRENCH GRANTEE'S RIGHT OR THE COMPANY'S RIGHT TO TERMINATE THE FRENCH GRANTEE'S RELATIONSHIP AS A SERVICE PROVIDER AT ANY TIME, WITH OR WITHOUT CAUSE, EXCEPT AS SET FORTH UNDER THE FRENCH GRANTEE'S EMPLOYMENT AGREEMENT.

N. Electronic Delivery.

The Company may, in its sole discretion, decide to deliver any documents related to current or future participation in the Plan by electronic means. The French Grantee hereby consents to receive such documents by electronic delivery and agrees to participate in the Plan through an on-line or electronic system established and maintained by the Company or a third party designated by the Company.

O. Language.

If the French Grantee has received this Option Agreement, or any other document related to the Option and/or the Plan translated into a language other than English and if the meaning of the translated version is different than the English version, the English version will control.

P. Consent to Receive Information in English.

By accepting the Option, the Optionee confirms having read and understood the U.S. Plan, the French Plan and this Agreement, including all terms and conditions included therein, which were provided in the English language. The Optionee accepts the terms of those documents accordingly.

En acceptant cette attribution d'Options, le Participant confirme avoir lu et compris le Plan Américain, le Plan Français et l'Accord, incluant tous leurs termes et conditions, qui ont été transmis en langue anglaise. Le Participant accepte les dispositions de ces documents en connaissance de cause.

Q. Severability.

The provisions of this Option Agreement are severable and if any one or more provisions are determined to be illegal or otherwise unenforceable, in whole or in part, the remaining provisions shall nevertheless be binding and enforceable.

R. Imposition of other Requirements.

The Company reserves the right to impose other requirements on the Option and the Shares purchased upon exercise of the Option, to the extent the Company determines it is necessary or advisable in order to comply with local laws or facilitate the administration of the Plan, and to require the French Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

S. Exchange Control Information.

If the French Grantee maintains a foreign bank account, the French Grantee is required to report the account to the French tax authorities when filing his or her annual tax return.

* * * * *

By the French Grantee's signature on the Notice of Grant, the French Grantee agrees that this Option is granted under and governed by the terms and conditions of the Plan and this Option Agreement. The French Grantee has reviewed the Plan and this Option Agreement in their entirety, has had an opportunity to obtain the advice of counsel prior to executing this Option Agreement and fully understands all provisions of the Plan and Option Agreement. The French Grantee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Administrator upon any questions relating to the Plan and Option Agreement. The French Grantee further agrees to notify the Company upon any change in the residence address indicated on page one.

[FORM OF RESTRICTED STOCK UNIT AGREEMENT]

BROCADE COMMUNICATIONS SYSTEMS, INC.

2009 STOCK PLAN
NOTICE OF GRANT OF RESTRICTED STOCK UNITS
FOR FRENCH GRANTEES

[FRENCH GRANTEE NAME**]**
[FRENCH GRANTEE ADDRESS**]**

You (the "French Grantee") have been granted an award of Restricted Stock Units under the Company's 2009 Stock Plan (the "U.S. Plan") and the Rules of the Brocade Communication Systems, Inc. 2009 Stock Plan for French Grantees (the "French Plan") (together the "Plan"). The date of this Notice of Grant of Restricted Stock Units for French Grantees ("Notice of Grant") is the Date of Grant defined below. The award of Restricted Stock Units are subject to the provisions of the attached Restricted Stock Unit Agreement for French Grantees (the "Agreement") and the Plan, both of which are incorporated herein in their entirety, the principal features of this award are as follows:

Date of Grant:	**[**GRANT DATE**]** (the "Date of Grant")
Number of Restricted Stock Units:	**[**NUMBER OF RSUs**]** (the "Number of Restricted Stock Units")
Vesting Schedule:	The Restricted Stock Units will vest in accordance with the following Vesting Schedule; provided, French Grantee remains a Service Provider to the Company or one of its Subsidiaries or Parent through the applicable Vesting Date (the "Vesting Schedule"): **[**INSERT VESTING SCHEDULE, WHICH FIRST VEST NO EARLIER THAN 2 YEARS FROM THE GRANT DATE**]**

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

En signant et renvoyant cette Notice d'attribution, le Bénéficiaire confirme ainsi avoir lu et compris les documents relatifs au Plan (Plan, sous-plan pour la France, le Contrat, et cette Notice d'attribution) qui lui ont été communiqués en langue anglaise. Il en accepte les termes en connaissance de cause.

By signing and returning this Notice of Grant, the French Grantee confirms having read and understood the documents relating to the Plan (the U.S. Plan, the French Plan, the

Agreement, and this Notice of Grant) which were provided in the English language. The French Grantee accepts the terms of those documents accordingly.

BROCADE COMMUNICATIONS SYSTEMS, INC.	**FRENCH GRANTEE**
Signature	**Signature**
Print Name	**Print Name**
Title	

****

RESTRICTED STOCK UNIT AGREEMENT
FOR FRENCH GRANTEES

1. Grant.

(a) The Company hereby grants to the French Grantee under the Company's 2009 Stock Plan (the "U.S. Plan") and the Rules of the Brocade Communication Systems, Inc. 2009 Stock Plan for French Grantees (the "French Plan") (together the "Plan"), an award of the Number of Restricted Stock Units set forth on the Notice of Grant of Restricted Stock Units for French Grantees (the "Notice of Grant"), subject to all of the terms and conditions in the Notice of Grant, this Restricted Stock Unit Agreement for French Grantees (the "Agreement"), and the Plan. For each Restricted Stock Unit that vests, the French Grantee will be entitled to receive one (1) Share (subject to automatic adjustment for stock splits, combinations and other adjustments contemplated in the Plan).

(b) The Restricted Stock Units are intended to qualify for the specific income tax and social security regime in France under Sections L. 225-197-1 to L.225-197-6 of the French Commercial Code, as amended. Certain events may affect the status of the French-qualified Restricted Stock Units and the Restricted Stock Units could be disqualified in the future. The Company does not make any undertaking or representation to maintain the qualified status of the Restricted Stock Units during the lifetime of the Restricted Stock Units. If the Restricted Stock Units no longer qualify for specific tax and social security treatment in France, said treatment will not apply and the French Grantee will be required to pay any portion of his or her income tax and social security contributions resulting from the Restricted Stock Units.

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

(d) Unless otherwise defined herein, capitalized terms used herein shall have the meanings ascribed to them in the Plan. Inconsistencies among the Notice of Grant, this Agreement and the Plan shall be resolved in accordance with the terms of the Plan.

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

3. Vesting Schedule/Period of Restriction. Except as provided in Sections 4 and 5, and subject to Section 7, the Restricted Stock Units awarded by this Agreement shall vest in accordance with the vesting provisions set forth on the Notice of Grant, but in no event prior to the second anniversary of the Date of Grant or such other period as is required to comply with the minimum mandatory vesting period applicable to French-qualified Restricted Stock Units. Restricted Stock Units shall not vest in accordance with any of the provisions of this Agreement unless the French Grantee shall have been continuously employed by the Company or by its Parent or other successor or a Subsidiary from the Date of Grant through the dates the Restricted Stock Units are otherwise scheduled to vest, unless otherwise provided in this Agreement or the French Plan.

4. Modifications to Vesting Schedule**.**

(a) *Vesting upon Leave of Absence.* In the event that the French Grantee takes an authorized leave of absence ("LOA"), the Restricted Stock Units awarded by this Agreement that are eligible to be earned shall either: (i) not be affected, or (ii) shall be deferred for a period of time equal to the duration of such LOA, based on the Company's LOA policy in effect at such time as determined by the Company in its sole discretion.

(b) *Death of French Grantee*. In the event that the French Grantee's relationship with the Company or its Parent or other successor or a Subsidiary as a Service Provider is terminated prior to full vesting of the Restricted Stock Units due to his or her death, the French Grantee's heirs shall have six (6) months following the date of death to request the issuance of the Shares underlying the unvested portion of the Restricted Stock Units.

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

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

6. Payment after Vesting. Any Restricted Stock Units that vest in accordance with Sections 3 through 4 of this Agreement will be paid to the French Grantee (or in the event of the French Grantee's death, to his or her heirs) as soon as practicable following the applicable Vesting Date, subject to Sections 9 and 21, but no later than March 15th of the calendar year following the applicable Vesting Date.

7. Forfeiture. The balance of the Restricted Stock Units that have not vested pursuant to Sections 3 through 5 at the time of the termination of the French Grantee's relationship with the Company or one of the Subsidiaries or Parent as a Service Provider for any or no reason will be forfeited.

8. Holding of the Shares. After issuance of the Shares to the French Grantee, the French Grantee must hold the Shares until the second anniversary of each Vesting Date. Nevertheless, if the

French Grantee's relationship with the Company or its Parent or other successor or a Subsidiary as a Service Provider terminates by reason of his or her death, the French Grantee's heirs shall not be subject to this restriction on the sale or transfer of the Shares. If the minimum holding periods applicable to Shares underlying the French-qualified Restricted Stock Units are not met, the Restricted Stock Units may not receive specific tax or social security treatment under French law.

In addition, the Shares may not be sold or transferred during certain Closed Periods as provided for by Section L. 225-197-1 of the French Commercial Code, as amended, and as interpreted by the French administrative guideline, so long as those Closed Periods are applicable to Shares underlying the Restricted Stock Units.

9. Withholding of Taxes.

(a) General. Regardless of any action the Company and/or the French Grantee's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to the French Grantee's participation in the Plan and legally applicable to the French Grantee ("Tax-Related Items"), the French Grantee acknowledges that the ultimate liability for all Tax-Related Items is and remains the French Grantee's responsibility and may exceed the amount actually withheld by the Company or the Employer. the French Grantee further acknowledges that the Company and/or the Employer (i) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of the Restricted Stock Unit, including, but not limited to, the grant, vesting or settlement of the Restricted Stock Unit, the issuance of Shares upon settlement of the Restricted Stock Unit, the subsequent sale of Shares acquired pursuant to such issuance and the receipt of any dividends; and (ii) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the Restricted Stock Unit to reduce or eliminate the French Grantee's liability for Tax-Related Items or achieve any particular tax result. Further, if the French Grantee has become subject to tax in more than one jurisdiction between the Date of Grant and the date of any relevant taxable or tax withholding event, as applicable, the French Grantee acknowledges that the Company and/or the Employer (or former employer, as applicable) may be required to withhold or account for Tax-Related Items in more than one jurisdiction.

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

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

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

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

10. Rights as Stockholder. Neither the French Grantee nor any person claiming under or through the French Grantee will have any of the rights or privileges of a stockholder of the Company in respect of any Shares deliverable hereunder unless and until certificates representing such Shares (which may be in book entry form) will have been issued, recorded on the records of the Company or its transfer agents or registrars, and delivered to the French Grantee (including through electronic delivery to a brokerage account). After such issuance, recordation and delivery, the French Grantee will have all the rights of a stockholder of the Company with respect to voting such Shares and receipt of dividends and distributions on such Shares, subject to the holding restrictions set forth in Section 8 of this Agreement.

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

12. Address for Notices. Any notice to be given to the Company under the terms of this Agreement will be addressed to the Company, in care of Stock Administrator, at 130 Holger Way, San Jose, California, 95134, USA, or at such other address as the Company may hereafter designate in writing, with a copy to the Company, C/O General Counsel, 130 Holger Way, San Jose, California, 95134, USA.

13. Grant is Not Transferable. Except to the limited extent provided in this Agreement or the Plan, this grant of Restricted Stock Units and the rights and privileges conferred hereby will not be sold, pledged, assigned, hypothecated, transferred or disposed of any way (whether by operation of law or otherwise) and will not be subject to sale under execution, attachment or similar process, until the French Grantee has been issued Shares in payment of the Restricted Stock Units. Upon any attempt to sell, pledge, assign, hypothecate, transfer or otherwise dispose of this grant, or any right or privilege conferred hereby, or upon any attempted sale under any execution, attachment or similar process, this grant and the rights and privileges conferred hereby immediately will become null and void.

14. Disqualification of French-Qualified Restricted Stock Units. If the French-qualified Restricted Stock Units are otherwise modified or adjusted in a manner in keeping with the terms of the U.S. Plan or as mandated as a matter of law and the modification or adjustment is contrary to the terms and conditions of the French Plan, the French-qualified Restricted Stock Units may no longer qualify as French-qualified Restricted Stock Units. If the Restricted Stock Units no longer qualify as French-qualified Restricted Stock Units, the Committee may, provided it is authorized to do so under the U.S. Plan, determine to lift, shorten or terminate certain restrictions applicable to the vesting of the Restricted Stock Units or the sale of the Shares which may have been imposed under the French Plan.

15. Restrictions on Sale of Securities. The Shares issued as payment for vested Restricted Stock Units under this Agreement will be registered under U.S. federal securities laws and will be freely tradable upon receipt, except as set forth in Section 8 of this Agreement. Further, a French Grantee's subsequent sale of the Shares may be subject to any Closed Period, market blackout-period that may be imposed by the Company and must comply with the Company's insider trading policies, and any other U.S. securities laws or other Applicable Laws.

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

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

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

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

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

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

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

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

24. Labor Law and Nature of Grant. In accepting the Restricted Stock Units, the French Grantee acknowledges, understands, and agrees that:

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be amended, suspended or terminated by the Company at any time;

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

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

(d) the French Grantee is voluntarily participating in the Plan;

(e) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are extraordinary items that do not constitute compensation of any kind for services of any kind rendered to the Company, the Employer or any Subsidiary, and which are outside the scope of the French Grantee's employment or service contract, if any;

(f) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not intended to replace any pension rights or compensation;

(g) the Restricted Stock Units and the Shares subject to the Restricted Stock Units are not part of normal or expected compensation or salary for any purposes, including, but not limited to, calculating any severance, resignation, termination, redundancy, dismissal, end of service payments, bonuses, long-service awards, pension or retirement or welfare benefits or similar payments and in no event should be considered as compensation for, or relating in any way to, past services for the Company, the Employer or any Subsidiary;

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

(i) no claim or entitlement to compensation or damages shall arise from forfeiture of the Restricted Stock Units resulting from termination of the French Grantee's employment by the Company or the Employer (for any reason whatsoever and whether or not in breach of local labor laws), and in consideration of the grant of the Restricted Stock Units to which the French Grantee is otherwise not entitled, the French Grantee irrevocably agrees never to institute any claim against the Company or the Employer, waives his or her ability, if any, to bring any such claim, and releases the Company and the Employer from any such claim; if, notwithstanding the foregoing, any such claim is allowed by a court of competent jurisdiction, then, by participating in the Plan, the French Grantee shall be deemed irrevocably to have agreed not to pursue such claim and agree to execute any and all documents necessary to request dismissal or withdrawal of such claims;

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

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

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

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

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

26. Notice of Governing Law. This award of Restricted Stock Units shall be governed by, and construed in accordance with, the laws of the State of California, without regard to principles of conflict of laws. For purposes of litigating any dispute that arises directly or indirectly from the relationship of the parties evidenced by the award of Restricted Stock Units, the parties hereby submit to and consent to the exclusive jurisdiction of the State of California and agree that such litigation shall be conducted on in the courts of Santa Clara County, California or the federal courts for the United States for the Northern District of California, and no other courts, where this grant is made and/or to be performed.

27. Language. If the French Grantee has received this Agreement or any other document related to the Plan translated into a language other than English and if the translated version is different than the English version, the English version will control, unless otherwise prescribed by local law.

28. Electronic Delivery. The Company may, in its sole discretion, decide to deliver any documents related to Restricted Stock Units awarded under the Plan or future Restricted Stock Units that may be awarded under the Plan by electronic means, or to request the French Grantee's consent

to participate in the Plan by electronic means. The French Grantee hereby consents to receive such documents by electronic delivery and if requested, to agree to participate in the Plan through an on-line or electronic system established and maintained by the Company or another third party designated by the Company.

29. Imposition of Other Requirements. The Company reserves the right to impose other requirements on the French Grantee's participation in the Plan, on the Restricted Stock Units and on any Shares acquired under the Plan, to the extent the Company determines it is necessary or advisable in order to comply with local law or facilitate the administration of the Plan, and to require the French Grantee to sign any additional agreements or undertakings that may be necessary to accomplish the foregoing.

30. Exchange Control Information. If the French Grantee maintains a foreign bank account, the French Grantee is required to report the account to the French tax authorities when filing his or her annual tax return.

* * * *

EXHIBIT 31.1

CERTIFICATION

I, Michael Klayko, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended April 30, 2011 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 3, 2011

By: /S/ MICHAEL KLAYKO
Michael Klayko
Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

CERTIFICATION

I, Richard Deranleau, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended April 30, 2011 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 1, 2011

/S/ RICHARD DERANLEAU
Richard Deranleau
Chief Financial Officer
(Principal Accounting Officer)

EXHIBIT 32.1

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 April 30, 2011 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 3, 2011

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 April 30, 2011 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 1, 2011

By: /S/ RICHARD DERANLEAU
Richard Deranleau
Chief Financial Officer