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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 3, 2014

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 95134-1376
(408) 333-8000

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x 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 o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

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

The number of shares outstanding of the registrant's common stock as of May 30, 2014, was 428,212,000 shares.

BROCADE COMMUNICATIONS SYSTEMS, INC.

FORM 10-Q

For the Quarter Ended May 3, 2014

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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,” “projects,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “continues,” “may,” and 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 OPERATIONS
(Unaudited)

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
	(In thousands, except per share amounts)			
Net revenues				
Product	$ 442,280	$ 451,746	$ 917,485	$ 953,993
Service	94,630	87,038	183,960	173,520
Total net revenues	536,910	538,784	1,101,445	1,127,513
Cost of revenues				
Product	142,271	164,599	295,898	338,974
Service	40,347	40,073	78,585	80,502
Total cost of revenues	182,618	204,672	374,483	419,476
Gross margin	354,292	334,112	726,962	708,037
Operating expenses:				
Research and development	90,554	98,429	177,710	196,119
Sales and marketing	139,597	145,316	272,262	294,327
General and administrative	21,112	20,037	41,255	39,114
Amortization of intangible assets	131	13,151	10,014	28,007
Restructuring, goodwill impairment, and other related costs (Note 7)	82,703	—	88,920	—
Gain on sale of network adapter business	—	—	(4,884)	—
Total operating expenses	334,097	276,933	585,277	557,567
Income from operations	20,195	57,179	141,685	150,470
Interest expense	(9,234)	(10,432)	(18,430)	(36,800)
Interest and other income (loss), net	(20)	31	(1,356)	97
Income before income tax	10,941	46,778	121,899	113,767
Income tax expense (benefit)	24,625	(171)	54,699	88,073
Net income (loss)	$ (13,684)	$ 46,949	$ 67,200	$ 25,694
Net income (loss) per share—basic	$ (0.03)	$ 0.10	$ 0.15	$ 0.06
Net income (loss) per share—diluted	$ (0.03)	$ 0.10	$ 0.15	$ 0.06
Shares used in per share calculation—basic	436,167	453,133	438,370	453,988
Shares used in per share calculation—diluted	436,167	466,919	451,999	466,620

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
	(In thousands)			
Net income (loss)	$ (13,684)	$ 46,949	$ 67,200	$ 25,694
Other comprehensive income and loss, net of tax:				
Unrealized gains (losses) on cash flow hedges:				
Change in unrealized gains and losses	1,094	(1,915)	170	(1,992)
Net gains and losses reclassified into earnings	32	(32)	1	(210)
Net unrealized gains (losses) on cash flow hedges	1,126	(1,947)	171	(2,202)
Foreign currency translation adjustments	1,298	(1,762)	475	(2,142)
Total other comprehensive income (loss)	2,424	(3,709)	646	(4,344)
Total comprehensive income (loss)	$ (11,260)	$ 43,240	$ 67,846	$ 21,350

See accompanying notes to condensed consolidated financial statements.

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

	May 3, 2014	October 26, 2013
	(In thousands, except par value)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,137,613	$ 986,997
Accounts receivable, net of allowances for doubtful accounts of $531 and $575 at May 3, 2014, and October 26, 2013, respectively	193,804	249,598
Inventories	40,773	45,344
Deferred tax assets	116,557	98,018
Prepaid expenses and other current assets	47,687	42,846
Total current assets	1,536,434	1,422,803
Property and equipment, net	452,722	472,940
Goodwill	1,556,733	1,645,437
Intangible assets, net	23,386	40,258
Non-current deferred tax assets	788	1,585
Other assets	38,846	38,368
Total assets	$ 3,608,909	$ 3,621,391
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 79,952	$ 88,218
Accrued employee compensation	141,482	145,996
Deferred revenue	230,704	226,696
Current restructuring liabilities	2,876	16,418
Current portion of long-term debt	2,277	2,996
Other accrued liabilities	64,898	80,339
Total current liabilities	522,189	560,663
Long-term debt, net of current portion	595,452	596,208
Non-current restructuring liabilities	3,587	1,008
Non-current deferred revenue	72,956	76,426
Non-current income tax liability	46,271	38,680
Non-current deferred tax liabilities	31,124	—
Other non-current liabilities	1,583	1,593
Total liabilities	1,273,162	1,274,578
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: 435,452 and 445,285 shares at May 3, 2014, and October 26, 2013, respectively	436	445
Additional paid-in capital	1,836,249	1,915,152
Accumulated other comprehensive loss	(12,798)	(13,444)
Retained earnings	511,860	444,660
Total stockholders' equity	2,335,747	2,346,813
Total liabilities and stockholders' equity	$ 3,608,909	$ 3,621,391

See accompanying notes to condensed consolidated financial statements.

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

	Six Months Ended	
	May 3, 2014	April 27, 2013
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 67,200	$ 25,694
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from stock-based compensation	(27,415)	(5,440)
Non-cash tax charges	—	78,206
Depreciation and amortization	59,927	93,358
Loss on disposal of property and equipment	3,178	3,046
Gain on sale of network adapter business	(4,884)	—
Amortization of debt issuance costs and original issue discount	566	665
Call premium cost and write-off of original issue discount and debt issuance costs related to lenders that did not participate in refinancing	—	5,360
Provision for doubtful accounts receivable and sales allowances	3,528	4,560
Non-cash compensation expense	39,640	38,322
Goodwill impairment charge	83,382	—
Changes in assets and liabilities:		
Accounts receivable	52,266	(10,561)
Inventories	4,570	16,605
Prepaid expenses and other assets	(8,371)	(1,714)
Deferred tax assets	57	322
Accounts payable	(7,126)	(14,692)
Accrued employee compensation	(11,738)	(54,163)
Deferred revenue	573	7,924
Other accrued liabilities	33,324	(7,969)
Restructuring liabilities	(10,964)	(418)
Net cash provided by operating activities	277,713	179,105
Cash flows from investing activities:		
Purchases of non-marketable equity investments	(223)	—
Purchases of property and equipment	(27,395)	(31,568)
Net cash paid in connection with acquisition	—	(44,629)
Proceeds from collection of note receivable	250	—
Proceeds from sale of network adapter business	9,995	—
Net cash used in investing activities	(17,373)	(76,197)
Cash flows from financing activities:		
Proceeds from senior unsecured notes	—	296,250
Payment of principal related to senior secured notes	—	(300,000)
Payment of debt issuance costs related to senior unsecured notes	—	(549)
Payment of principal related to capital leases	(1,749)	(975)
Common stock repurchases	(190,432)	(86,179)
Proceeds from issuance of common stock	54,530	35,899
Excess tax benefits from stock-based compensation	27,415	5,440
Net cash used in financing activities	(110,236)	(50,114)
Effect of exchange rate fluctuations on cash and cash equivalents	512	(1,722)
Net increase in cash and cash equivalents	150,616	51,072
Cash and cash equivalents, beginning of period	986,997	713,226
Cash and cash equivalents, end of period	$ 1,137,613	$ 764,298
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 17,375	$ 22,593
Cash paid for income taxes	$ 16,408	$ 8,557
Supplemental schedule of non-cash investing activities:		
Acquisition of property and equipment through capital leases	$ —	$ 999

See accompanying notes to condensed consolidated financial statements.

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

1. Basis of Presentation

Brocade Communications Systems, Inc. (“Brocade” or the “Company”) has prepared the accompanying Condensed Consolidated Financial Statements pursuant to the rules and regulations of the United States (“U.S.”) Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations. The Condensed Consolidated Balance Sheet as of October 26, 2013, was derived from the Company’s audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended October 26, 2013.

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

The Company’s fiscal year is a 52- or 53-week period ending on the last Saturday in October or the first Saturday in November, respectively. Fiscal year 2014 is a 53-week fiscal year and fiscal year 2013 is a 52-week fiscal year. The second quarter of fiscal year 2014 is a 14-week quarter, which is one week longer than a typical quarter.

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

Use of Estimates in Preparation of Condensed Consolidated Financial Statements

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

2. Summary of Significant Accounting Policies

There have been no material changes in the Company’s significant accounting policies for the six months ended May 3, 2014, as compared to the significant accounting policies disclosed in Brocade’s Annual Report on Form 10-K for the fiscal year ended October 26, 2013.

New Accounting Pronouncements or Updates Recently Adopted

In February 2013, the FASB issued an update to ASC 220: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. Under this update, an entity is required to provide information about the amounts reclassified out of accumulated other comprehensive income (“AOCI”) into net income by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. The Company adopted this update in the first quarter of fiscal year 2014, presenting the required information in Note 12, “Accumulated Other Comprehensive Income (Loss),” of the Notes to Condensed Consolidated Financial Statements.

Recent Accounting Pronouncements or Updates That Are Not Yet Effective

In March 2013, the FASB issued an update to ASC 830 Foreign Currency Matters (“ASC 830”): Parent’s Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. Under this update, an entity is required to release any cumulative translation adjustment

into net income when an entity ceases to have a controlling financial interest resulting in the complete or substantially complete liquidation of a subsidiary or group of assets within a foreign entity. This update to ASC 830 should be applied prospectively and will be adopted by the Company in the first quarter of fiscal year 2015. The Company does not expect the adoption of this update to ASC 830 to have a material impact on its financial position, results of operations or cash flows.

In July 2013, the FASB issued an update to ASC 740 Income Taxes (“ASC 740”): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. Under this update, an entity is required to present an unrecognized tax benefit, or a portion thereof, as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that these instances are not available at the reporting date. This update to ASC 740 should be applied prospectively and will be adopted by the Company in the first quarter of fiscal year 2015. Early adoption and retrospective application are permitted. The Company does not expect the adoption of this update to ASC 740 to have a material impact on its financial position, results of operations or cash flows.

In April 2014, the FASB issued an update to ASC 205 Presentation of Financial Statements (“ASC 205”) and ASC 360 Property, Plant, and Equipment (“ASC 360”): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under this update, a discontinued operation may include a component of an entity or a group of components of an entity, or a business or nonprofit activity. Only those disposals of components of an entity that represent a strategic shift that has, or will have, a major effect on an entity’s operations and financial results will be reported as discontinued operations in the financial statements. This update to ASC 205 and ASC 360 should be applied prospectively and will be adopted by the Company in the first quarter of fiscal year 2016. Early adoption is permitted, but only for disposals that have not been reported in financial statements previously issued.

In May 2014, the FASB issued an update to ASC 606 Revenue from Contracts with Customers (“ASC 606”) that will supersede virtually all existing revenue guidance. Under this update, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. As such, an entity will need to use more judgment and make more estimates than under the current guidance. This update to ASC 606 should be applied retrospectively either to each prior reporting period presented in the financial statements, or only to the most current reporting period presented in the financial statements with a cumulative effect adjustment recorded in the retained earnings. This update to ASC 606 becomes effective and will be adopted by the Company in the first quarter of fiscal year 2018. Early adoption is not permitted. The Company is currently evaluating the impact of this update on its consolidated financial statements.

Concentrations

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

A majority of the Company’s accounts receivable balance is derived from sales to original equipment manufacturer (“OEM”) partners in the computer storage and server industry. As of May 3, 2014, three customers accounted for 15%, 11%, and 11%, respectively, of total accounts receivable, for a combined total of 37% of total accounts receivable. As of October 26, 2013, four customers accounted for 18%, 12%, 11%, and 11%, respectively, of total accounts receivable, for a combined total of 52% 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 May 3, 2014, four customers accounted for 17%, 16%, 12%, and 11%, respectively, of the Company’s total net revenues for a combined total of 56% of total net revenues. For the three months ended April 27, 2013, three customers accounted for 18%, 16%, and 11%, respectively, of the Company’s total net revenues for a combined total of 45% of total net revenues.

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

3. Acquisitions and Divestitures

Divestitures

On January 17, 2014, the Company completed the sale of its network adapter business to QLogic Corporation, as part of the Company's business strategy to focus development on a portfolio of high performance networking products and services--both hardware and software-based--that meet the demands of today's virtualized and cloud based data centers.

The net carrying amount of the divested network adapter business' assets and liabilities was $5.1 million, comprised primarily of associated goodwill of $4.1 million. The sale resulted in a gain of $4.9 million, which is presented in the Company's Condensed Consolidated Statements of Operations as "Gain on sale of network adapter business."

Acquisitions

On November 9, 2012, the Company completed its acquisition of Vyatta, Inc. ("Vyatta"), a privately held developer of a software-based network operating system suite headquartered in Belmont, California. Vyatta became a wholly owned subsidiary of the Company as a result of the acquisition. The Vyatta software-based network operating system suite is deployed on conventional computer hardware platforms for multiple applications in network virtualization, software-defined networking ("SDN"), Network Functions Virtualization ("NFV"), and other private/public cloud computing platforms. This acquisition complements Brocade's investments in Internet Protocol ("IP") switches and router products and enables Brocade to pursue new market opportunities in data center virtualization, including public cloud, virtual private cloud, and managed services.

The results of operations of Vyatta are included in the Company's Condensed Consolidated Statement of Operations from the date of the acquisition. The Company does not consider the acquisition of Vyatta to be material to its results of operations or financial position, and therefore, Brocade is not presenting pro-forma financial information of combined operations.

The total purchase price was $44.8 million, consisting of $43.6 million cash consideration and $1.2 million related to prepaid license fees paid by the Company to Vyatta that was effectively settled at the recorded amount as a result of the acquisition. Of the cash consideration, $7.0 million will be held in escrow for a period of 18 months from the closing of the acquisition and will be released subject to resolution of certain contingencies. In addition, the Company paid direct acquisition costs of $0.4 million. In connection with this acquisition, the Company allocated the total purchase consideration to the net assets and liabilities acquired, including identifiable intangible assets, based on their respective fair values at the acquisition date.

4. Goodwill and Intangible Assets

The following table presents a summary of the net carrying value of the Company's intangible assets (in thousands):

	May 3, 2014	October 26, 2013
Indefinite-lived intangible assets		
Goodwill	$ 1,556,733	$ 1,645,437
In-process research and development [1]	12,260	21,590
Finite-lived intangible assets		
Total intangible assets subject to amortization	11,126	18,668
Total intangible assets	$ 1,580,119	$ 1,685,695

(1) Acquired in-process research and development ("IPRD") is an intangible asset accounted for as an indefinite-lived asset until the completion or abandonment of the associated research and development effort. As an indefinite-lived asset, the IPRD intangible asset is subject to testing for impairment annually, which the Company conducts as of the first day of the second fiscal quarter, and whenever events or changes in facts and circumstances indicate that it is more likely than not that IPRD is impaired. If the research and development effort associated with the IPRD is successfully completed, then the IPRD intangible asset will be amortized over its estimated useful life to be determined at the date the effort is completed. During the three months ended May 3, 2014, development work was completed on $9.3 million of the IPRD intangible asset and this completed IPRD intangible asset is being amortized as Core/developed technology. The development effort on the remaining IPRD intangible asset is expected to be completed in the first half of fiscal year 2015.

The Company performed its annual IPRD impairment test using measurement data as of the first day of the second fiscal quarter of 2014. During the test, the Company elected the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of its IPRD asset

is less than its carrying amount. After assessing the totality of events and circumstances, the Company determined that it was not more likely than not that the fair value of its IPRD assets is less than its carrying amount and no further testing is required.

The following table summarizes goodwill activity by reportable segment for the six months ended May 3, 2014 (in thousands):

	SAN Products	IP Networking Products	Global Services	Total
Balance at October 26, 2013				
Goodwill	$ 176,878	$ 1,358,975	$ 155,416	$ 1,691,269
Accumulated impairment losses	—	(45,832)	—	(45,832)
	176,878	1,313,143	155,416	1,645,437
Impairment [1]	—	(83,382)	—	(83,382)
Divestitures [2]	(474)	(3,657)	—	(4,131)
Tax and other adjustments during the six months ended May 3, 2014 [3]	(40)	(1,151)	—	(1,191)
Balance at May 3, 2014				
Goodwill	176,364	1,354,167	155,416	1,685,947
Accumulated impairment losses	—	(129,214)	—	(129,214)
	$ 176,364	$ 1,224,953	$ 155,416	$ 1,556,733

(1) In the second quarter of fiscal year 2014, the Company has made a strategic shift in the allocation of its engineering resources and has reduced its investment in the hardware-based ADX products and increased investment in the software-based ADX products for the Layer 4-7 market. As a result of this change in strategy, the Company expects hardware-based ADX and related support revenue to be negatively impacted. Based on these changes in estimates, the Company recognized an impairment charge because the book value of its Application Delivery Products (“ADP”) reporting unit net assets, which includes the ADX products, exceeded the estimated fair value of these assets. The goodwill amount related to the Company’s other reporting units was not impacted.

(2) The goodwill disposed relates to the sale of the Company’s network adapter business, see Note 3, “Acquisitions and Divestitures,” of the Notes to Condensed Consolidated Financial Statements.

(3) The goodwill adjustments during the six months ended May 3, 2014, were primarily a result of tax benefits from the exercise of stock awards of acquired companies.

The Company conducts its goodwill impairment test annually, as of the first day of the second fiscal quarter, and whenever events occur or facts and circumstances change that would more likely than not reduce the fair value of a reporting unit below 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 applying various observable market-based multiples to the reporting unit’s operating results and then applying an appropriate control premium. For the fiscal year 2014 annual goodwill impairment test, the Company used a combination of approaches to estimate each reporting unit’s fair value. The Company believed that at the time of the impairment testing performed in the second fiscal quarter of 2014, the income approach and the market approach were equally representative of a reporting unit’s fair value.

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

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

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

Based on the results of the annual goodwill impairment analysis performed during the second fiscal quarter of 2014, the Company determined that no impairment needed to be recorded for Storage Area Networking ("SAN") Products, Ethernet Switching & Internet Protocol ("IP") Routing, and Global Services reporting units as these reporting units passed the first step of goodwill impairment testing.

However, the Company determined that the fair value of the ADP reporting unit was below the reporting unit's carrying value. Accordingly, the Company performed the second step of the goodwill impairment test to measure the amount of the impairment. During the second step, the Company assigned the ADP reporting unit's fair value to the reporting unit's assets and liabilities, using the relevant acquisition accounting guidance, to determine the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill was then compared with the carrying value of the ADP reporting unit's goodwill to record an impairment loss of $83.4 million, which is equal to the difference in values.

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 finite-lived intangible assets (in thousands, except for weighted-average remaining useful life):

May 3, 2014	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Useful Life (in years)
Trade name	$ 460	$ 167	$ 293	2.51
Core/developed technology	10,370	812	9,558	4.65
Customer relationships	1,080	321	759	3.51
Non-compete agreements	810	294	516	2.51
Total intangible assets [1]	$ 12,720	$ 1,594	$ 11,126	4.41

October 26, 2013	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Weighted-Average Remaining Useful Life (in years)
Trade name	$ 460	$ 110	$ 350	3.01
Core/developed technology	192,340	185,254	7,086	0.35
Customer relationships	287,090	276,473	10,617	0.51
Non-compete agreements	810	195	615	3.01
Total intangible assets	$ 480,700	$ 462,032	$ 18,668	0.58

(1) During the six months ended May 3, 2014, $477.3 million of intangible assets became fully amortized and, therefore, were removed from the balance sheet.

The following table presents the amortization of finite-lived intangible assets included in the Condensed Consolidated Statements of Operations (in thousands):

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Cost of revenues	$ 396	$ 9,651	$ 6,858	$ 20,431
Operating expenses	131	13,151	10,014	28,007
Total	$ 527	$ 22,802	$ 16,872	$ 48,438

The following table presents the estimated future amortization of finite-lived intangible assets as of May 3, 2014 (in thousands):

Fiscal Year	Estimated Future Amortization
2014 (remaining six months)	$ 1,366
2015	2,731
2016	2,419
2017	2,104
2018	1,884
Thereafter	622
Total	$ 11,126

5. Balance Sheet Details

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

	May 3, 2014	October 26, 2013
Inventories:		
Raw materials	$ 12,749	$ 14,048
Finished goods	28,024	31,296
Total	$ 40,773	$ 45,344

	May 3, 2014	October 26, 2013
Property and equipment, net:		
Computer equipment	$ 13,732	$ 16,006
Software	58,331	57,186
Engineering and other equipment (1)	371,232	416,573
Furniture and fixtures (1)	28,442	29,029
Leasehold improvements	19,695	24,287
Land and building	384,565	384,654
Subtotal	875,997	927,735
Less: Accumulated depreciation and amortization (1), (2)	(423,275)	(454,795)
Total	$ 452,722	$ 472,940

(1) Engineering and other equipment, furniture and fixtures and accumulated depreciation and amortization include the following amounts under capital leases as of May 3, 2014, and October 26, 2013, respectively (in thousands):

	May 3, 2014	October 26, 2013
Cost	$ 11,925	$ 11,925
Accumulated depreciation	(6,287)	(5,366)
Total	$ 5,638	$ 6,559

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

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Depreciation and amortization expense	$ 20,519	$ 21,162	$ 43,055	$ 44,920

6. Fair Value Measurements

The Company applies fair value measurements for both financial and nonfinancial assets and liabilities. The Company has no nonfinancial assets and liabilities that are required to be measured at fair value on a recurring basis as of May 3, 2014.

The fair value accounting guidance permits companies to elect fair value measurement for many financial instruments and certain other items that are otherwise not required to be accounted for at fair value. The Company did not elect to measure any eligible financial instruments or other assets at fair value as of May 3, 2014, and October 26, 2013.

Fair Value Hierarchy

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

Assets and liabilities measured and recorded at fair value on a recurring basis as of May 3, 2014, were as follows (in thousands):

		Fair Value Measurements Using		
	Balance as of May 3, 2014	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]	$ 731,260	$ 731,260	$ —	$ —
Derivative assets	1,310	—	1,310	—
Total assets measured at fair value	$ 732,570	$ 731,260	$ 1,310	$ —
Liabilities:				
Derivative liabilities	$ 627	$ —	$ 627	$ —
Total liabilities measured at fair value	$ 627	$ —	$ 627	$ —

[1] Money market funds are reported within "Cash and cash equivalents" in the Condensed Consolidated Balance Sheets.

Assets and liabilities measured and recorded at fair value on a recurring basis as of October 26, 2013, were as follows (in thousands):

		Fair Value Measurements Using		
	Balance as of October 26, 2013	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]	$ 431,750	$ 431,750	$ —	$ —
Derivative assets	1,814	—	1,814	—
Total assets measured at fair value	$ 433,564	$ 431,750	$ 1,814	$ —
Liabilities:				
Derivative liabilities	$ 1,441	$ —	$ 1,441	$ —
Total liabilities measured at fair value	$ 1,441	$ —	$ 1,441	$ —

[1] Money market funds are reported within "Cash and cash equivalents" in the Condensed Consolidated Balance Sheets.

During the six months ended May 3, 2014, the Company had no transfers between levels of the fair value hierarchy of its assets and liabilities measured at fair value.

7. Restructuring and Other Costs

The following table provides details of the Company's restructuring and other charges (in thousands):

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Goodwill impairment [1]	$ 83,382	$ —	$ 83,382	$ —
Severance and Benefits	(43)	—	(1,788)	—
Lease Loss Reserve and Related Costs	(636)	—	7,326	—
Restructuring, goodwill impairment, and other related costs	$ 82,703	$ —	$ 88,920	$ —

(1) For additional discussion on goodwill impairment, see Note 4, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements.

The following table provides a reconciliation of the Company's beginning and ending restructuring liability balances (in thousands):

	Fiscal 2013 Fourth Quarter Restructuring Plan			Prior Restructuring Plans	
	Severance and Benefits	Contract Terminations and Other	Lease Loss Reserve and Related Costs	Lease Loss Reserve and Related Costs	Total
Restructuring liabilities at October 26, 2013	$ 15,216	$ 416	$ —	$ 1,794	$ 17,426
Restructuring and other charges	(1,788)	—	7,326	—	5,538
Cash payments	(13,258)	(249)	(2,460)	(561)	(16,528)
Translation adjustment	—	—	27	—	27
Restructuring liabilities at May 3, 2014	$ 170	$ 167	$ 4,893	$ 1,233	$ 6,463
Current restructuring liabilities at May 3, 2014	$ 170	$ 167	$ 2,078	$ 461	$ 2,876
Non-current restructuring liabilities at May 3, 2014	$ —	$ —	$ 2,815	$ 772	$ 3,587

Fiscal 2013 Fourth Quarter Restructuring Plan

During the fiscal year ended October 26, 2013, and the first quarter of fiscal year 2014, the Company restructured certain business operations and reduced the Company's operating expense structure. The restructuring plan was approved by the Company's management and communicated to the Company's employees in September 2013. The restructuring plan included a workforce reduction of approximately 250 employees, primarily in the engineering, sales, and marketing organizations, as well as the cancellation of certain nonrecurring engineering agreements and exit from certain leased facilities.

In connection with the restructuring plan, the Company incurred aggregate charges of $31.0 million through May 3, 2014, primarily related to severance and benefits charges and lease loss reserve and related costs, and substantially completed the restructuring plan by the end of the first quarter of fiscal year 2014.

Severance and benefits charges incurred under this restructuring plan consisted of severance and related employee termination costs, including salary and other compensation payments to the employees during their post-notification retention period as well as associated outplacement services. The post-notification retention period for the employees terminated under the plan did not exceed the legal notification period, or, in the absence of a legal notification requirement, 60 days. Contract terminations and other charges were primarily related to the cancellation of certain contracts in connection with the restructuring of certain business functions. Lease loss reserve and related costs were primarily related to the costs that will continue to be incurred under exited facilities' lease contracts for the remaining term of the leases without economic benefit to the Company, reduced by estimated sublease income that could be reasonably obtained for these facilities.

The Company reevaluates its estimates and assumptions on a quarterly basis and makes adjustments to the restructuring liabilities balance if necessary. During the six months ended May 3, 2014, the Company reversed approximately $1.8 million of severance and benefits charges due to actual cash payments to certain terminated employees being lower than original estimates as a result of the completion of the severance arrangements with these employees during the first quarter of fiscal year 2014.

The above restructuring and other related charges are included in “Restructuring, goodwill impairment, and other related costs” in the Condensed Consolidated Statements of Operations.

Prior Restructuring Plans

Prior to fiscal year 2013, the Company also recorded charges related to estimated facilities lease losses, net of expected sublease income, due to consolidation of real estate space as a result of acquisitions.

Cash payments for facilities that are part of the Company’s lease loss reserve are expected to be paid over the respective lease terms through fiscal year 2021.

8. Borrowings

The following table provides details of the Company’s long-term debt (in thousands, except years and percentages):

			May 3, 2014		October 26, 2013	
	Maturity	Stated Annual Interest Rate	Amount	Effective Interest Rate	Amount	Effective Interest Rate
Senior Secured Notes:						
2020 Notes	2020	6.875%	$ 300,000	7.26%	$ 300,000	7.26%
Senior Unsecured Notes:						
2023 Notes	2023	4.625%	300,000	4.83%	300,000	4.83%
Capital lease obligations	2016	5.671%	2,851	5.41%	4,600	5.50%
Total long-term debt			602,851		604,600	
Less:						
Unamortized discount			5,122		5,396	
Current portion of long-term debt			2,277		2,996	
Long-term debt, net of current portion			$ 595,452		$ 596,208	

Senior Unsecured Notes

In January 2013, the Company issued 4.625% senior unsecured notes in the aggregate principal amount of $300.0 million due 2023 (the “2023 Notes”) pursuant to an indenture, dated as of January 22, 2013 (the “2023 Indenture”), between the Company, certain domestic subsidiaries of the Company that have guaranteed the Company’s obligations under the 2023 Notes (as described in Note 16, “Guarantor and Non-Guarantor Subsidiaries”) and Wells Fargo Bank, National Association as the trustee. The Company irrevocably deposited the net proceeds from this offering, together with cash on hand, with the trustee to redeem all of the Company’s outstanding 6.625% senior secured notes due 2018 (the “2018 Notes”) as described below under “*Senior Secured Notes.*”

The 2023 Notes bear interest payable semi-annually on January 15 and July 15 of each year. No payments were made toward the principal of the 2023 Notes during the six months ended May 3, 2014.

As of May 3, 2014, and October 26, 2013, the fair value of the 2023 Notes was approximately $288.0 million and $281.1 million, respectively, which was estimated based on broker trading prices.

On or after January 15, 2018, the Company may redeem all or part of the 2023 Notes at the redemption prices set forth in the 2023 Indenture, plus accrued and unpaid interest, if any, up to the redemption date. At any time prior to January 15, 2018, the Company may redeem all or a part of the 2023 Notes at a price equal to 100% of the principal amount of the 2023 Notes, plus an applicable premium and accrued and unpaid interest, if any, up to the redemption date. In addition, at any time prior to January 15, 2016, the Company may redeem up to 35% of the principal amount of the 2023 Notes, using the net cash proceeds of one or more sales of the Company’s capital stock at a redemption price equal to 104.625% of the principal amount of the 2023 Notes redeemed, plus accrued and unpaid interest, if any, up to the redemption date.

If the Company experiences a specified change of control triggering event, it must offer to repurchase the 2023 Notes at a repurchase price equal to 101% of the principal amount of the 2023 Notes repurchased, plus accrued and unpaid interest, if any, up to the repurchase date.

The 2023 Indenture contains covenants that, among other things, restrict the ability of the Company and its subsidiaries to:

- Incur certain liens and enter into certain sale leaseback transactions;
- Create, assume, incur or guarantee additional indebtedness of the Company's subsidiaries without such subsidiary guaranteeing the 2023 Notes on a pari passu basis; and
- Consolidate or merge with, or convey, transfer or lease all or substantially all of the Company's or its subsidiaries' assets.

These covenants are subject to a number of limitations and exceptions set forth in the 2023 Indenture. The 2023 Indenture also includes customary events of default, including cross-defaults to other debt of the Company and its subsidiaries.

Senior Secured Notes

In January 2010, the Company issued $300.0 million in aggregate principal amount of the 2018 Notes and $300.0 million in aggregate principal amount of 6.875% senior secured notes due 2020 (the "2020 Notes," and together with the 2018 Notes, the "Senior Secured Notes") pursuant to separate indentures, each dated as of January 20, 2010, between the Company, certain domestic subsidiaries of the Company that have guaranteed the Company's obligations under the Senior Secured Notes and Wells Fargo Bank, National Association as the trustee (the "2020 Indenture" and "2018 Indenture," respectively). The Senior Secured Notes bear interest payable semi-annually on January 15 and July 15 of each year. During the three months ended April 27, 2013, the Company paid $300.0 million to pay in full the principal of the 2018 Notes. The Company's obligations under the 2020 Notes are—and prior to January 22, 2013, the Company's obligations under the 2018 Notes were—guaranteed by certain of the Company's domestic subsidiaries and secured by a lien on substantially all of the Company's and the subsidiary guarantors' assets. See Note 16, "Guarantor and Non-Guarantor Subsidiaries," of the Notes to Condensed Consolidated Financial Statements.

As of May 3, 2014, and October 26, 2013, the fair value of the 2020 Notes was approximately $321.8 million and $324.4 million, respectively, which was estimated based on broker trading prices.

On January 22, 2013, the Company called the 2018 Notes for redemption at a redemption price equal to 103.313% of the principal amount of the 2018 Notes and irrevocably deposited $311.9 million with the trustee for the 2018 Notes to discharge the 2018 Indenture. As a result of the deposit and discharge, the guarantees provided by certain of the Company's domestic subsidiaries and the liens granted by the Company and the subsidiary guarantors to secure their obligations with respect to the 2018 Notes were released as of the date of the deposit. The amount deposited with the trustee included $300.0 million to repay the principal amount of the 2018 Notes, $9.9 million representing the difference between the redemption price and the principal amount of the 2018 Notes ("Call Premium") and $2.0 million of unpaid interest payable up to the redemption date of February 21, 2013. On February 21, 2013, the trustee redeemed the 2018 Notes using the deposited amount, extinguishing the Company's $300.0 million liability in relation to the principal amount of the 2018 Notes.

In accordance with the applicable accounting guidance for debt modification and extinguishment, and for interest costs, the Company expensed the Call Premium, remaining debt issuance costs and remaining original issue discount relating to the 2018 Notes in the first quarter of fiscal year 2013, which totaled $15.3 million. The Company reported this expense within "Interest expense" in the Condensed Consolidated Statements of Operations for the six months ended April 27, 2013.

On or after January 2015, the Company may redeem all or a part of the 2020 Notes at the redemption prices set forth in the 2020 Indenture, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date. In addition, at any time prior to January 2015, the Company may, on one or more than one occasion, redeem some or all of the 2020 Notes at any time at a redemption price equal to 100% of the principal amount of the 2020 Notes redeemed, plus a "make-whole" premium determined as of the applicable redemption date, and accrued and unpaid interest and special interest, if any, to the applicable redemption date.

If the Company experiences specified change of control triggering events, it must offer to repurchase the 2020 Notes at a repurchase price equal to 101% of the principal amount of the 2020 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 2020 Notes at a repurchase price equal to 100% of the principal amount of the 2020 Notes repurchased, plus accrued and unpaid interest and special interest, if any, to the applicable repurchase date.

The 2020 Indenture contains covenants that, among other things, restrict the ability of the Company and certain of its 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 limitations and exceptions set forth in the 2020 Indenture. The 2020 Indenture also includes customary events of default, including cross-defaults to other debts of the Company and its subsidiaries. Prior to discharge, the 2018 Indenture contained covenants and events of default substantially similar to those in the 2020 Indenture.

Senior Secured Credit Facility

In October 2008, the Company entered into a credit agreement 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 sub-facility and a $25.0 million letter of credit sub-facility ("Senior Secured Credit Facility"). The credit agreement was subsequently amended in January 2010, June 2011, October 2013 and April 2014, to, among other things, remove and update certain covenants, reduce interest rates on the term loan facility, reduce interest rates and fees on the revolving credit facility, and extend the maturity date of the revolving credit facility to January 7, 2015. The term loan was prepaid in full, and there were no principal amounts or commitments outstanding under the term loan facility as of either May 3, 2014, or October 26, 2013.

The Company may borrow under the revolving credit facility in the future for ongoing working capital and other general corporate purposes. There were no principal amounts outstanding under the revolving credit facility, and the full $125.0 million was available for future borrowing under the revolving credit facility as of May 3, 2014, and October 26, 2013.

The credit agreement contains financial covenants that require the Company to maintain a minimum consolidated fixed charge coverage ratio and maximum consolidated leverage ratio. The credit agreement also includes customary nonfinancial covenants (similar in nature to those under the Senior Secured Notes) and customary events of default, including cross-defaults to the Company's material indebtedness and change of control. The Company's obligations under the Senior Secured Credit Facility are guaranteed by certain of the Company's domestic subsidiaries and secured by a lien on substantially all of the Company's and the subsidiary guarantors' assets.

Debt Maturities

As of May 3, 2014, our aggregate debt maturities based on outstanding principal were as follows (in thousands):

Fiscal Year		**Principal Balances**
2014 (remaining six months)	$	1,275
2015		1,286
2016		290
2017		—
2018		—
Thereafter		600,000
Total	$	602,851

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 May 3, 2014, and April 27, 2013, respectively (in thousands):

	Accrued Warranty	
	Six Months Ended	
	May 3, 2014	April 27, 2013
Beginning balance	$ 15,915	$ 14,453
Liabilities accrued for warranties issued during the period	2,288	2,263
Warranty claims paid and used during the period	(2,987)	(3,910)
Changes in liability for pre-existing warranties during the period	(383)	(1,607)
Ending balance	$ 14,833	$ 11,199

In addition, the Company has defense and indemnification clauses contained within its various customer contracts. As such, the Company indemnifies the parties to whom it sells its products with respect to the Company's product, alone or potentially in combination with others, infringing upon any patents, trademarks, copyrights or trade secrets, as well as against bodily injury or damage to real or tangible personal property caused by a defective Company product. As of May 3, 2014, there have been no known events or circumstances that have resulted in a material customer contract-related indemnification liability to the Company.

Manufacturing and Purchase Commitments

Brocade has manufacturing arrangements with contract manufacturers ("CMs") under which Brocade provides 12 month product forecasts and places purchase orders in advance of the scheduled delivery of products to Brocade's customers. The required lead time for placing orders with the CMs depends on the specific product. Brocade issues purchase orders and the CMs then generate invoices based on prices and payment terms mutually agreed upon and set forth in those purchase orders. Although the purchase orders Brocade places with its CMs are cancellable, the terms of the agreements require Brocade to purchase all inventory components not returnable, usable by, or sold to other customers of the CMs.

As of May 3, 2014, the Company's aggregate commitment to the CMs for inventory components used in the manufacture of Brocade products was $158.7 million, which the Company expects to utilize during future normal ongoing operations within the next 12 months, net of a purchase commitments reserve of $3.3 million, which is reported within "Other accrued liabilities" in the Condensed Consolidated Balance Sheet as of May 3, 2014. The Company's purchase commitments reserve reflects the Company's estimate of purchase commitments it does not expect to consume in normal ongoing operations.

Income Taxes

The Company has 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

From time to time, the Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including claims of alleged infringement of patents and/or other intellectual property rights and commercial and employment contract disputes. While the outcome of these matters cannot be predicted with certainty, the Company does not believe that the outcome of any of these matters, individually or in the aggregate, will result in losses that are materially in excess of amounts already accrued by the Company.

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. Instead, the Company manages its exposure to credit risk through its investment policies. The Company generally enters into

derivative transactions with high-credit quality counterparties and, by policy, limits the amount of credit exposure to any one counterparty based on its analysis of that counterparty's relative credit standing.

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

Foreign Currency Exchange Rate Risk

A majority of the Company's revenue, expense, and capital purchasing activities are transacted in U.S. dollars. However, the Company is exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies. The Company is primarily exposed to foreign currency fluctuations related to operating expenses denominated in currencies other than the U.S. dollar, of which the most significant to its operations for the three and six months ended May 3, 2014, and April 27, 2013, were the Chinese yuan, the euro, the Japanese yen, the Indian rupee, the British pound, the Singapore dollar and the Swiss franc. The Company has established a foreign currency risk management program to protect against the volatility of future cash flows caused by changes in foreign currency exchange rates. This program reduces, but does not eliminate, the impact of foreign currency exchange rate movements.

The Company's foreign currency risk management program includes foreign currency derivatives with cash flow hedge accounting designation that utilizes foreign currency forward and option contracts to hedge exposures to the variability in the U.S. dollar equivalent of anticipated non-U.S.-dollar-denominated cash flows. These instruments generally have a maturity of less than fifteen months. 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. The tax effect allocated to cash flow hedge-related components of other comprehensive income was not significant for the three and six months ended May 3, 2014, and April 27, 2013.

Ineffective cash flow hedges are included in the Company's net income as part of "Interest and other income (loss), net." The amount recorded on ineffective cash flow hedges was not significant for the three and six months ended May 3, 2014, and April 27, 2013, respectively.

Net gains (losses) relating to the effective portion of foreign currency derivatives recorded in the Condensed Consolidated Statements of Operations are as follows (in thousands):

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Cost of revenues	$ 48	$ (4)	$ 120	$ 29
Research and development	(285)	60	(585)	55
Sales and marketing	182	(24)	421	142
General and administrative	16	(3)	38	5
Total	$ (39)	$ 29	$ (6)	$ 231

We may choose not to hedge the foreign currency risk associated with our foreign currency exposures if we believe such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency, if the currency is difficult or too expensive to hedge, or if such exposure or the associated risk is insignificant. The net foreign currency exchange gains and losses recorded as part of "Interest and other income (loss), net" were losses of $0.1 million and $0.2 million for the three and six months ended May 3, 2014, respectively, and losses of $0.1 million and gains of $0.1 million for the three and six months ended April 27, 2013, respectively.

Gross unrealized loss positions are recorded within "Other accrued liabilities" and "Other non-current liabilities," and gross unrealized gain positions are recorded within "Prepaid expenses and other current assets." As of May 3, 2014, the Company had gross unrealized loss positions of $0.6 million and gross unrealized gain positions of $1.3 million included in "Other accrued liabilities" and "Prepaid expenses and other current assets," respectively.

Volume of Derivative Activity

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

In U.S. dollars	Derivatives Designated as Hedging Instruments		Derivatives Not Designated as Hedging Instruments	
	As of May 3, 2014	As of October 26, 2013	As of May 3, 2014	As of October 26, 2013
Euro	$ 20,302	$ 16,012	$ —	$ 25,478
British pound	13,332	25,053	—	—
Indian rupee	8,822	17,444	—	—
Singapore dollar	6,382	12,867	—	—
Japanese yen	6,162	16,172	—	—
Swiss franc	5,741	11,066	—	—
Total	$ 60,741	$ 98,614	$ —	$ 25,478

The Company utilizes a rolling hedge strategy for the majority of its foreign currency derivative instruments with cash flow hedge accounting designation. All of the Company's foreign currency forward contracts are single delivery, which are settled at maturity involving one cash payment.

11. Stock-Based Compensation

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

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Cost of revenues	$ 3,474	$ 3,541	$ 6,617	$ 7,487
Research and development	4,422	4,500	8,757	9,185
Sales and marketing	8,462	8,012	15,227	16,157
General and administrative	4,694	3,119	9,039	5,493
Total stock-based compensation	$ 21,052	$ 19,172	$ 39,640	$ 38,322

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

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Stock options, including variable options	$ 1,249	$ 781	$ 2,530	$ 990
Restricted stock units, including stock units with market conditions (altogether "RSUs")	17,404	13,479	31,987	27,149
Employee stock purchase plan ("ESPP")	2,399	4,912	5,123	10,183
Total stock-based compensation	$ 21,052	$ 19,172	$ 39,640	$ 38,322

The following table presents the unrecognized compensation expense, net of estimated forfeitures, of the Company's equity compensation plans as of May 3, 2014, 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	$ 5,463	1.60
RSUs	$ 92,562	1.79
ESPP	$ 3,158	0.86

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

	Six Months Ended			
	May 3, 2014		April 27, 2013	
	Granted (in thousands)	Weighted-Average Grant Date Fair Value	Granted (in thousands)	Weighted-Average Grant Date Fair Value
Stock options	250	$ 3.32	2,625	$ 2.37
RSUs	1,108	$ 10.05	4,646	$ 5.61

The total intrinsic value of stock options exercised for the six months ended May 3, 2014, and April 27, 2013, was $17.5 million and $13.3 million, respectively.

12. Accumulated Other Comprehensive Income (Loss)

The tax effects allocated to each component of other comprehensive income (loss) for the three months ended May 3, 2014, and April 27, 2013, are as follows (in thousands):

	Three Months Ended					
	May 3, 2014			April 27, 2013		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on cash flow hedges:						
Change in unrealized gains and losses, foreign exchange contracts	$ 1,248	$ (154)	$ 1,094	$ (2,142)	$ 227	$ (1,915)
Net gains and losses reclassified into earnings, foreign exchange contracts [(1)]	39	(7)	32	(29)	(3)	(32)
Net unrealized gains (losses) on cash flow hedges	1,287	(161)	1,126	(2,171)	224	(1,947)
Foreign currency translation adjustments	1,298	—	1,298	(1,762)	—	(1,762)
Total other comprehensive income (loss)	$ 2,585	$ (161)	$ 2,424	$ (3,933)	$ 224	$ (3,709)

The tax effects allocated to each component of other comprehensive income (loss) for the six months ended May 3, 2014, and April 27, 2013, are as follows (in thousands):

	Six Months Ended					
	May 3, 2014			April 27, 2013		
	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) or Benefit	Net-of-Tax Amount
Unrealized gains (losses) on cash flow hedges:						
Change in unrealized gains and losses, foreign exchange contracts	$ 227	$ (57)	$ 170	$ (1,969)	$ (23)	$ (1,992)
Net gains and losses reclassified into earnings, foreign exchange contracts [(1)]	6	(5)	1	(231)	21	(210)
Net unrealized gains (losses) on cash flow hedges	233	(62)	171	(2,200)	(2)	(2,202)
Foreign currency translation adjustments	475	—	475	(2,142)	—	(2,142)
Total other comprehensive income (loss)	$ 708	$ (62)	$ 646	$ (4,342)	$ (2)	$ (4,344)

(1) For Condensed Consolidated Statements of Operations classification of amounts reclassified from Accumulated Other Comprehensive Income (Loss), see Note 10, “Derivative Instruments and Hedging Activities,” of the Notes to Condensed Consolidated Financial Statements.

The changes in accumulated other comprehensive income (loss) by component, net of tax, for the six months ended May 3, 2014, and April 27, 2013, are as follows (in thousands):

	Six Months Ended					
	May 3, 2014			April 27, 2013		
	Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss	Gains (Losses) on Cash Flow Hedges	Foreign Currency Translation Adjustments	Total Accumulated Other Comprehensive Loss
Beginning balance	$ 267	$ (13,711)	$ (13,444)	$ 2,390	$ (12,257)	$ (9,867)
Change in unrealized gains and losses	170	475	645	(1,992)	(2,142)	(4,134)
Net gains and losses reclassified into earnings	1	—	1	(210)	—	(210)
Net current-period other comprehensive income (loss)	171	475	646	(2,202)	(2,142)	(4,344)
Ending balance	$ 438	$ (13,236)	$ (12,798)	$ 188	$ (14,399)	$ (14,211)

13. Income Taxes

In general, the Company’s provision for income taxes differs from tax computed at the U.S. federal statutory tax rate of 35% due to state taxes, the effect of non-U.S. operations, non-deductible stock-based compensation expense and adjustments to unrecognized tax benefits. The effective tax rates for the three and six months ended May 3, 2014, were higher than the federal statutory rate of 35% primarily due to a goodwill impairment charge of $83.4 million, which is non-deductible for tax purposes, and an increase in certain unrecognized tax benefits, partially offset by an increase of earnings in foreign jurisdictions taxed at rates lower than the U.S. federal statutory tax rate.

The effective tax rate for the three months ended April 27, 2013, was lower than the federal statutory rate of 35% primarily due to a discrete benefit from reserve releases resulting from audit settlements. In addition, the effective tax rate for the six months ended April 27, 2013, was higher than the federal statutory tax rate of 35% primarily due to a charge of $78.2 million to reduce our previously recognized California deferred tax assets as a result of a change in California tax law. This charge was partially offset by the effect of change in foreign earnings, discrete benefits from reserve releases resulting from audit settlements, and an increase in the federal research and development tax credit that was reinstated on January 2, 2013, for calendar year 2013 and made retroactive to January 1, 2012.

The total amount of net unrecognized tax benefits of $81.3 million as of May 3, 2014, would affect the Company’s effective tax rate, if recognized. The timing of the closure of audits is highly uncertain and it is reasonably possible that the balance of unrecognized tax benefits could change during the remainder of fiscal year 2014.

The IRS and other tax authorities regularly examine the Company’s income tax returns. The IRS is currently examining fiscal years 2009 and 2010. In addition, the Company is in negotiations with foreign tax authorities to obtain correlative relief on transfer pricing adjustments previously settled with the IRS. The Company believes that reserves for unrecognized tax benefits are adequate for all open tax years. The timing of income tax examinations, as well as the amounts and timing of related settlements, if any, are highly uncertain. The Company believes that before the end of fiscal year 2014, it is reasonably possible that either certain audits will conclude or the statutes of limitations relating to certain income tax examination periods will expire, or both. After the Company reaches settlement with the tax authorities, the Company expects to record a corresponding adjustment to our unrecognized tax benefits. Taking into consideration the inherent uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, the Company estimates the range of potential decreases in underlying uncertain tax positions is between $0 and $5.0 million in the next 12 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 except for certain California deferred tax assets and capital loss carryforwards. Accordingly, the Company applies a valuation allowance to the California deferred tax assets due to the change in California law in 2012 and to capital loss carryforwards due to the limited carryforward periods of these tax assets.

14. Segment Information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated regularly by the Chief Operating Decision Maker ("CODM"), or decision-making group, in deciding how to allocate resources and in assessing performance. Financial decisions and the allocation of resources are based on the information from the Company's internal management reporting system. Currently, the Company's CODM is its Chief Executive Officer.

Prior to the second quarter of fiscal year 2014, Brocade was organized into four operating segments, and three individually reportable segments, summarized as follows:

Operating Segments	Individually Reportable Segments [1]
SAN Products	SAN Products
Global Services	Global Services
Ethernet Switching & IP Routing ADP	IP Networking Products [2]

(1) These reportable segments were organized principally by product category.

(2) Ethernet Switching & IP Routing and ADP were combined to form the reportable segment: IP Networking Products.

In the second quarter of fiscal year 2014, Brocade changed its internal financial reporting, realigning it with the changes in Brocade's strategic focus on key technology segments. As a result of this change, the number of the Company's operating segments was reduced from four to three operating segments. Ethernet Switching & IP Routing and ADP business components were combined into the IP Networking Products operating segment, and separate discrete financial information is no longer available for either Ethernet Switching & IP Routing or ADP components. The reportable segments did not change as a result of this change in the Company's internal financial reporting. Therefore the restatement of previously reported segment information is not necessary.

At this time, the Company does not track all of its assets by operating segments. The majority of the Company's assets as of May 3, 2014, were attributable to its U.S. operations.

Summarized financial information by reportable segment for the three and six months ended May 3, 2014, and April 27, 2013, based on the internal management reporting system, is as follows (in thousands):

	SAN Products	IP Networking Products	Global Services	Total
Three months ended May 3, 2014				
Net revenues	$ 321,164	$ 121,116	$ 94,630	$ 536,910
Cost of revenues	84,514	57,757	40,347	182,618
Gross margin	$ 236,650	$ 63,359	$ 54,283	$ 354,292
Three months ended April 27, 2013				
Net revenues	$ 319,088	$ 132,658	$ 87,038	$ 538,784
Cost of revenues	87,897	76,702	40,073	204,672
Gross margin	$ 231,191	$ 55,956	$ 46,965	$ 334,112
Six months ended May 3, 2014				
Net revenues	$ 676,620	$ 240,865	$ 183,960	$ 1,101,445
Cost of revenues	177,455	118,443	78,585	374,483
Gross margin	$ 499,165	$ 122,422	$ 105,375	$ 726,962
Six months ended April 27, 2013				
Net revenues	$ 680,822	$ 273,171	$ 173,520	$ 1,127,513
Cost of revenues	184,850	154,124	80,502	419,476
Gross margin	$ 495,972	$ 119,047	$ 93,018	$ 708,037

15. Net Income (Loss) Per Share

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

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Basic net income (loss) per share				
Net income (loss)	$ (13,684)	$ 46,949	$ 67,200	$ 25,694
Weighted-average shares used in computing basic net income (loss) per share	436,167	453,133	438,370	453,988
Basic net income (loss) per share	$ (0.03)	$ 0.10	$ 0.15	$ 0.06
Diluted net income (loss) per share				
Net income (loss)	$ (13,684)	$ 46,949	$ 67,200	$ 25,694
Weighted-average shares used in computing basic net income (loss) per share	436,167	453,133	438,370	453,988
Dilutive potential common shares in the form of stock options	—	3,744	2,435	4,109
Dilutive potential common shares in the form of other share-based awards	—	10,042	11,194	8,523
Weighted-average shares used in computing diluted net income (loss) per share	436,167	466,919	451,999	466,620
Diluted net income (loss) per share	$ (0.03)	$ 0.10	$ 0.15	$ 0.06
Antidilutive potential common shares in the form of [(1)]				
Stock options	7,458	14,940	2,250	15,382
Other share-based awards	9,873	6	1,014	250

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

16. Guarantor and Non-Guarantor Subsidiaries

On January 20, 2010, the Company issued $600.0 million aggregate principal amount of the 2018 Notes and 2020 Notes. In addition, on January 22, 2013, the Company issued $300.0 million aggregate principal amount of the 2023 Notes. The Company’s obligations under the 2023 Notes and the 2020 Notes are, and prior to January 22, 2013, the Company’s obligations under the 2018 Notes were, guaranteed by certain of the Company’s domestic subsidiaries (the “Subsidiary Guarantors”). Each of the Subsidiary Guarantors is 100% owned by the Company and all guarantees are joint and several. The Senior Secured Notes are not guaranteed by certain of the Company’s domestic subsidiaries or any of the Company’s foreign subsidiaries (the “Non-Guarantor Subsidiaries”).

Pursuant to the terms of the indentures governing the Senior Secured Notes, the guarantees are full and unconditional, but are subject to release under the following circumstances:

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

The guarantees of the 2018 Notes were released on January 22, 2013, upon the discharge of the 2018 Indenture.

Pursuant to the terms of the indenture governing the 2023 Notes, the guarantees are full and unconditional but are subject to release under the following circumstances:

- Upon the sale of the subsidiary or all or substantially all of its assets;
- Upon the discharge of the guarantees under the Senior Secured Credit Facility, the 2020 Notes and any other debt guaranteed by the applicable subsidiary;
- Upon the merger, consolidation or liquidation of the subsidiary into the Company or another subsidiary guarantor; and
- Upon legal or covenant defeasance or the discharge of the Company's obligations under the applicable indenture.

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

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

The following is the condensed consolidating balance sheet as of May 3, 2014 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 431,158	$ 8,403	$ 698,052	$ —	$ 1,137,613
Accounts receivable, net	115,769	12	78,023	—	193,804
Inventories	43,088	—	(2,315)	—	40,773
Intercompany receivables	—	476,800	—	(476,800)	—
Other current assets	152,246	112	11,595	291	164,244
Total current assets	742,261	485,327	785,355	(476,509)	1,536,434
Property and equipment, net	438,747	325	13,650	—	452,722
Investment in subsidiaries	1,116,621	—	—	(1,116,621)	—
Other non-current assets	1,534,165	82,020	3,568	—	1,619,753
Total assets	$ 3,831,794	$ 567,672	$ 802,573	$ (1,593,130)	$ 3,608,909
Liabilities and Stockholders' Equity					
Current liabilities:					
Accounts payable	$ 62,749	$ —	$ 17,203	$ —	$ 79,952
Current portion of long-term debt	2,277	—	—	—	2,277
Intercompany payables	412,299	—	64,501	(476,800)	—
Other current liabilities	312,899	4,550	122,220	291	439,960
Total current liabilities	790,224	4,550	203,924	(476,509)	522,189
Long-term debt, net of current portion	595,452	—	—	—	595,452
Other non-current liabilities	110,371	—	45,150	—	155,521
Total liabilities	1,496,047	4,550	249,074	(476,509)	1,273,162
Total stockholders' equity	2,335,747	563,122	553,499	(1,116,621)	2,335,747
Total liabilities and stockholders' equity	$ 3,831,794	$ 567,672	$ 802,573	$ (1,593,130)	$ 3,608,909

The following is the condensed consolidating balance sheet as of October 26, 2013 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 396,710	$ 9,301	$ 580,986	$ —	$ 986,997
Accounts receivable, net	159,436	328	89,834	—	249,598
Inventories	40,072	—	5,272	—	45,344
Intercompany receivables	—	464,443	—	(464,443)	—
Other current assets	127,709	7	11,395	1,753	140,864
Total current assets	723,927	474,079	687,487	(462,690)	1,422,803
Property and equipment, net	457,054	567	15,319	—	472,940
Investment in subsidiaries	1,026,247	—	—	(1,026,247)	—
Other non-current assets	1,626,031	95,624	3,993	—	1,725,648
Total assets	$ 3,833,259	$ 570,270	$ 706,799	$ (1,488,937)	$ 3,621,391
Liabilities and Stockholders’ Equity					
Current liabilities:					
Accounts payable	$ 68,190	$ 28	$ 20,000	$ —	$ 88,218
Current portion of long-term debt	2,996	—	—	—	2,996
Intercompany payables	409,590	—	54,853	(464,443)	—
Other current liabilities	335,261	7,075	125,360	1,753	469,449
Total current liabilities	816,037	7,103	200,213	(462,690)	560,663
Long-term debt, net of current portion	596,208	—	—	—	596,208
Other non-current liabilities	74,201	—	43,506	—	117,707
Total liabilities	1,486,446	7,103	243,719	(462,690)	1,274,578
Total stockholders’ equity	2,346,813	563,167	463,080	(1,026,247)	2,346,813
Total liabilities and stockholders’ equity	$ 3,833,259	$ 570,270	$ 706,799	$ (1,488,937)	$ 3,621,391

The following is the condensed consolidating statement of operations for the three months ended May 3, 2014 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 313,634	$ 582	$ 222,694	$ —	$ 536,910
Intercompany revenues	7,422	—	3,136	(10,558)	—
Total net revenues	321,056	582	225,830	(10,558)	536,910
Cost of revenues	121,481	2,206	57,400	1,531	182,618
Intercompany (income) cost of revenues	(14,985)	—	25,543	(10,558)	—
Total cost of revenues	106,496	2,206	82,943	(9,027)	182,618
Gross margin (loss)	214,560	(1,624)	142,887	(1,531)	354,292
Operating expenses	287,601	261	47,766	(1,531)	334,097
Intercompany operating expenses (income)	(46,576)	(7,356)	53,932	—	—
Total operating expenses	241,025	(7,095)	101,698	(1,531)	334,097
Income (loss) from operations	(26,465)	5,471	41,189	—	20,195
Other income (expense)	(9,445)	(8)	199	—	(9,254)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	(35,910)	5,463	41,388	—	10,941
Income tax expense	22,853	—	1,772	—	24,625
Equity in net earnings (losses) of subsidiaries	45,078	—	—	(45,078)	—
Net income (loss)	$ (13,685)	$ 5,463	$ 39,616	$ (45,078)	$ (13,684)

The following is the condensed consolidating statement of operations for the three months ended April 27, 2013 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 313,525	$ 1,056	$ 224,203	$ —	$ 538,784
Intercompany revenues	6,453	—	6,470	(12,923)	—
Total net revenues	319,978	1,056	230,673	(12,923)	538,784
Cost of revenues	131,123	11,649	59,726	2,174	204,672
Intercompany (income) cost of revenues	(18,103)	—	31,026	(12,923)	—
Total cost of revenues	113,020	11,649	90,752	(10,749)	204,672
Gross margin (loss)	206,958	(10,593)	139,921	(2,174)	334,112
Operating expenses	196,641	10,232	72,234	(2,174)	276,933
Intercompany operating expenses (income)	(42,281)	(7,446)	49,727	—	—
Total operating expenses	154,360	2,786	121,961	(2,174)	276,933
Income (loss) from operations	52,598	(13,379)	17,960	—	57,179
Other income (expense)	(7,421)	50	(3,030)	—	(10,401)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	45,177	(13,329)	14,930	—	46,778
Income tax expense (benefit)	(2,817)	866	1,780	—	(171)
Equity in net earnings (losses) of subsidiaries	(1,045)	—	—	1,045	—
Net income (loss)	$ 46,949	$ (14,195)	$ 13,150	$ 1,045	$ 46,949

The following is the condensed consolidating statement of operations for the six months ended May 3, 2014 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 636,750	$ 1,381	$ 463,314	$ —	$ 1,101,445
Intercompany revenues	13,815	—	6,677	(20,492)	—
Total net revenues	650,565	1,381	469,991	(20,492)	1,101,445
Cost of revenues	242,113	8,822	120,523	3,025	374,483
Intercompany (income) cost of revenues	(30,159)	—	50,651	(20,492)	—
Total cost of revenues	211,954	8,822	171,174	(17,467)	374,483
Gross margin (loss)	438,611	(7,441)	298,817	(3,025)	726,962
Operating expenses	479,797	6,919	101,586	(3,025)	585,277
Intercompany operating expenses (income)	(89,740)	(14,448)	104,188	—	—
Total operating expenses	390,057	(7,529)	205,774	(3,025)	585,277
Income (loss) from operations	48,554	88	93,043	—	141,685
Other income (expense)	(19,837)	(134)	185	—	(19,786)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	28,717	(46)	93,228	—	121,899
Income tax expense	51,284	—	3,415	—	54,699
Equity in net earnings (losses) of subsidiaries	89,767	—	—	(89,767)	—
Net income (loss)	$ 67,200	$ (46)	$ 89,813	$ (89,767)	$ 67,200

The following is the condensed consolidating statement of operations for the six months ended April 27, 2013 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Revenues	$ 676,580	$ 2,123	$ 448,810	$ —	$ 1,127,513
Intercompany revenues	16,234	—	9,825	(26,059)	—
Total net revenues	692,814	2,123	458,635	(26,059)	1,127,513
Cost of revenues	267,745	22,213	125,291	4,227	419,476
Intercompany (income) cost of revenues	(27,222)	—	53,281	(26,059)	—
Total cost of revenues	240,523	22,213	178,572	(21,832)	419,476
Gross margin (loss)	452,291	(20,090)	280,063	(4,227)	708,037
Operating expenses	410,404	21,053	130,337	(4,227)	557,567
Intercompany operating expenses (income)	(74,885)	(14,277)	89,162	—	—
Total operating expenses	335,519	6,776	219,499	(4,227)	557,567
Income (loss) from operations	116,772	(26,866)	60,564	—	150,470
Other expense	(33,352)	(44)	(2,916)	(391)	(36,703)
Income (loss) before income tax provision and equity in net earnings (losses) of subsidiaries	83,420	(26,910)	57,648	(391)	113,767
Income tax expense	83,035	866	4,172	—	88,073
Equity in net earnings (losses) of subsidiaries	25,699	—	—	(25,699)	—
Net income (loss)	$ 26,084	$ (27,776)	$ 53,476	$ (26,090)	$ 25,694

The following is the condensed consolidating statement of comprehensive income (loss) for the three months ended May 3, 2014 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net income (loss)	$ (13,685)	$ 5,463	$ 39,616	$ (45,078)	$ (13,684)
Other comprehensive income (loss), net of tax:					
Unrealized gains on cash flow hedges:					
Change in unrealized gains and losses	—	—	1,094	—	1,094
Net gains reclassified into earnings	—	—	32	—	32
Net unrealized gains on cash flow hedges	—	—	1,126	—	1,126
Foreign currency translation adjustments	(68)	—	1,366	—	1,298
Total other comprehensive income (loss)	(68)	—	2,492	—	2,424
Total comprehensive income (loss)	$ (13,753)	$ 5,463	$ 42,108	$ (45,078)	$ (11,260)

The following is the condensed consolidating statement of comprehensive income (loss) for the three months ended April 27, 2013 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net income (loss)	$ 46,949	$ (14,195)	$ 13,150	$ 1,045	$ 46,949
Other comprehensive income (loss), net of tax:					
Unrealized losses on cash flow hedges:					
Change in unrealized gains and losses	—	—	(1,915)	—	(1,915)
Net gains reclassified into earnings	—	—	(32)	—	(32)
Net unrealized losses on cash flow hedges	—	—	(1,947)	—	(1,947)
Foreign currency translation adjustments	100	—	(1,862)	—	(1,762)
Total other comprehensive income (loss)	100	—	(3,809)	—	(3,709)
Total comprehensive income (loss)	$ 47,049	$ (14,195)	$ 9,341	$ 1,045	$ 43,240

The following is the condensed consolidating statement of comprehensive income (loss) for the six months ended May 3, 2014 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net income (loss)	$ 67,200	$ (46)	$ 89,813	$ (89,767)	$ 67,200
Other comprehensive income (loss), net of tax:					
Unrealized gains on cash flow hedges:					
Change in unrealized gains and losses	—	—	170	—	170
Net gains reclassified into earnings	—	—	1	—	1
Net unrealized gains on cash flow hedges	—	—	171	—	171
Foreign currency translation adjustments	40	—	435	—	475
Total other comprehensive income (loss)	40	—	606	—	646
Total comprehensive income (loss)	$ 67,240	$ (46)	$ 90,419	$ (89,767)	$ 67,846

The following is the condensed consolidating statement of comprehensive income (loss) for the six months ended April 27, 2013 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net income (loss)	$ 26,084	$ (27,776)	$ 53,476	$ (26,090)	$ 25,694
Other comprehensive income (loss), net of tax:					
Unrealized losses on cash flow hedges:					
Change in unrealized gains and losses	—	—	(1,992)	—	(1,992)
Net gains reclassified into earnings	—	—	(210)	—	(210)
Net unrealized losses on cash flow hedges	—	—	(2,202)	—	(2,202)
Foreign currency translation adjustments	498	—	(2,640)	—	(2,142)
Total other comprehensive income (loss)	498	—	(4,842)	—	(4,344)
Total comprehensive income (loss)	$ 26,582	$ (27,776)	$ 48,634	$ (26,090)	$ 21,350

The following is the condensed consolidating statement of cash flows for the six months ended May 3, 2014 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by (used in) operating activities	$ 165,349	$ (898)	$ 113,262	$ —	$ 277,713
Cash flows from investing activities:					
Purchases of property and equipment	(23,773)	—	(3,622)	—	(27,395)
Purchases of non-marketable minority equity investments	(223)	—	—	—	(223)
Proceeds from sale of network adapter business	3,081	—	6,914	—	9,995
Proceeds from collection of note receivable	250	—	—	—	250
Net cash provided by (used in) investing activities	(20,665)	—	3,292	—	(17,373)
Cash flows from financing activities:					
Payment of principal related to capital leases	(1,749)	—	—	—	(1,749)
Common stock repurchases	(190,432)	—	—	—	(190,432)
Proceeds from issuance of common stock	54,530	—	—	—	54,530
Excess tax benefits from stock-based compensation	27,415	—	—	—	27,415
Net cash used in financing activities	(110,236)	—	—	—	(110,236)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	512	—	512
Net increase (decrease) in cash and cash equivalents	34,448	(898)	117,066	—	150,616
Cash and cash equivalents, beginning of period	396,710	9,301	580,986	—	986,997
Cash and cash equivalents, end of period	$ 431,158	$ 8,403	$ 698,052	$ —	$ 1,137,613

The following is the condensed consolidating statement of cash flows for the six months ended April 27, 2013 (in thousands):

	Brocade Communications Systems, Inc.	Subsidiary Guarantors	Non-Guarantor Subsidiaries	Consolidating Adjustments	Total
Net cash provided by operating activities	$ 96,996	$ 2,521	$ 79,588	$ —	$ 179,105
Cash flows from investing activities:					
Purchases of property and equipment	(27,887)	(23)	(3,658)	—	(31,568)
Net cash acquired (paid) in connection with acquisition	(44,769)	140	—	—	(44,629)
Net cash provided by (used in) investing activities	(72,656)	117	(3,658)	—	(76,197)
Cash flows from financing activities:					
Proceeds from senior unsecured notes	296,250	—	—	—	296,250
Payment of debt issuance costs related to senior unsecured notes	(549)	—	—	—	(549)
Payment of principal related to senior secured notes	(300,000)	—	—	—	(300,000)
Payment of principal related to capital leases	(975)	—	—	—	(975)
Common stock repurchases	(86,179)	—	—	—	(86,179)
Proceeds from issuance of common stock	35,899	—	—	—	35,899
Excess tax benefits from stock-based compensation	5,440	—	—	—	5,440
Net cash used in financing activities	(50,114)	—	—	—	(50,114)
Effect of exchange rate fluctuations on cash and cash equivalents	—	—	(1,722)	—	(1,722)
Net increase (decrease) in cash and cash equivalents	(25,774)	2,638	74,208	—	51,072
Cash and cash equivalents, beginning of period	284,466	680	428,080	—	713,226
Cash and cash equivalents, end of period	$ 258,692	$ 3,318	$ 502,288	$ —	$ 764,298

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

The following discussion and analysis should be read in conjunction with the Condensed Consolidated Financial Statements and the 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 16, 2013. This section and other parts of this Quarterly Report on Form 10-Q contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as “anticipates,” “expects,” “believes,” “plans,” “predicts,” and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled “Risk Factors” below.

Overview

We are a leading supplier of networking equipment and software for businesses and organizations of many types and sizes. Our end customers include global enterprises that use our products and services as part of their communications infrastructure, and service providers such as telecommunication firms, cable operators and mobile carriers who use our products and services as part of their production operations. Our products and services are marketed, sold and supported worldwide to end-user customers through distribution partners, including original equipment manufacturer (“OEM”) partners, distributors, systems integrators, and value-added resellers, as well as directly to end users by our sales force. Our business model is focused on two key markets: our Storage Area Networking (“SAN”) business, where we offer Fibre Channel (“FC”) SAN backbones, directors, fixed form factor switches and embedded switches, and our Internet Protocol (“IP”) Networking business, where we offer IP routers, Ethernet switches, network security and monitoring, as well as products used to manage application delivery. Our IP products are available in modular, fixed, and virtualized or software form factors and can be deployed in both traditional network designs and full-featured Ethernet fabrics. We also provide product-related customer support and services in both our SAN business and our IP Networking business.

We expect growth opportunities in the SAN market over time to be driven by key customer Information Technology (“IT”) initiatives such as server virtualization, enterprise mobility, data center consolidation, and migration to higher performance technologies, such as solid state storage and cloud computing initiatives. Our IP Networking business strategies are intended to increase new customer accounts and expand our market share through product innovation, such as our Ethernet fabric and virtualized software networking products (also known as software-defined networking, or “SDN,” and Network Functions Virtualization, or “NFV”), and the development and expansion of our routes to market. The success of Ethernet fabrics, in particular, will depend on customers recognizing the benefits of upgrading their data center networks to fabric-based networking architectures and our future success in this area would be negatively impacted if this technological transition does not occur at the anticipated rate or at all. While our NFV revenues have not been material to date, customer interest in NFV is very high and we believe that customers prefer to buy networking products from suppliers that offer a portfolio of solutions that address their current and future needs. We plan to continue to support our SAN and IP Networking growth plans by continuous innovation, leveraging the strategic investments we have made in our core businesses, developing emerging technologies (such as SDN and NFV), new product introductions, and enhancing our existing partnerships and forming new ones through our various distribution channels.

In the second quarter of fiscal year 2013, we announced that we were making certain changes in our strategic direction by focusing on key technology segments, such as our SAN fabrics, Ethernet fabrics and software networking products, for the data center. As part of this change in focus, we reduced our cost of revenues and other operating expenses by $100 million on an annualized basis when comparing the first quarter of fiscal year 2014 to the first quarter of fiscal year 2013. We achieved our targeted cost reduction opportunities ahead of our previously announced schedule by focusing on the optimization of discretionary spending and rebalancing personnel resources.

We previously disclosed that this change in focus will also result in a rebalancing of resources away from certain non-key areas of our business, which has impacted our ability to generate revenue from certain products, markets, geographies and customers. In the second quarter of fiscal year 2014, we made a strategic decision to reduce our investment in the hardware-based ADX products and to increase investment in the software-based ADX products for the Layer 4-7 market. As a result of this change in strategy, we expect hardware-based ADX and related support revenue to be negatively impacted by $20 million to $40 million on an annualized basis. Based on the decrease in the hardware-based ADX revenue forecast, we recognized an $83 million non-cash goodwill impairment charge during the second quarter of fiscal year 2014.

Combined with the other rebalancing actions taken through the first quarter of fiscal year 2014, which, among other actions, included divestiture of our network adapter business and a change in our wireless business strategy, we believe our changes in strategic direction will cause our annualized revenues in fiscal year 2014 to be lower by approximately $80 million to $100 million compared with fiscal year 2013.

We continue to face multiple challenges, including aggressive price discounting from competitors, new product introductions from competitors, rapid adoption of new technologies by customers, an uneven recovery in the worldwide macroeconomic climate and its impact on IT spending patterns globally, as well as uncertain federal government spending in the United States. We are also cautious about the stability and health of certain international markets, including China, and current global and country-specific dynamics, including inflationary risks in China. These factors may impact our business and that of our partners. While the diversified portfolio of products that we offer helps mitigate the effect of some of these challenges and we expect IT spending levels to generally rise in the long term, it is difficult for us to offset short-term reductions in IT spending, which may adversely affect our financial results and stock price.

We expect the number of SAN and IP Networking products we ship to fluctuate depending on the demand for our existing and recently introduced products, and sales support for our products from our distribution and resale partners, as well as the timing of product transitions by our OEM partners. The average selling prices per port for our SAN and IP Networking products have typically declined over time, unless impacted favorably by a new product introduction or mix, and will likely decline in the future.

Our plans for our operating cash flows are to provide liquidity for operations, to repurchase our stock to reduce the dilutive effects of our equity award programs and, from time to time, we may also opportunistically repurchase our stock under our previously announced stock repurchase programs. In addition, we may use our operating cash flows to strengthen our networking portfolios through acquisitions and strategic investments. In September 2013, we announced our intent to return at least 60% of our adjusted free cash flow, which we define as operating cash flow adjusted for the impact of the excess tax benefits from stock-based compensation, less capital expenditures, to investors in the form of share repurchases or dividends. In the third quarter of fiscal year 2014, our Board of Directors initiated a quarterly cash dividend of $0.035 per share of our common stock. The first dividend payment will be made on July 2, 2014, to stockholders of record as of the close of market on June 10, 2014. Future dividend payments are subject to review and approval by our Board of Directors.

Results of Operations

Our results of operations for the three and six months ended May 3, 2014, and April 27, 2013, 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 SAN and IP Networking products, and support and services related to these products, which we call Global Services.

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

	Three Months Ended					
	May 3, 2014	% of Net Revenues	April 27, 2013	% of Net Revenues	Increase/ (Decrease)	% Change
SAN Products	$ 321,164	59.8%	$ 319,088	59.2%	$ 2,076	0.7 %
IP Networking Products	121,116	22.6%	132,658	24.6%	(11,542)	(8.7)%
Global Services	94,630	17.6%	87,038	16.2%	7,592	8.7 %
Total net revenues	$ 536,910	100.0%	$ 538,784	100.0%	$ (1,874)	(0.3)%

	Six Months Ended					
	May 3, 2014	% of Net Revenues	April 27, 2013	% of Net Revenues	Increase/ (Decrease)	% Change
SAN Products	$ 676,620	61.4%	$ 680,822	60.4%	$ (4,202)	(0.6)%
IP Networking Products	240,865	21.9%	273,171	24.2%	(32,306)	(11.8)%
Global Services	183,960	16.7%	173,520	15.4%	10,440	6.0 %
Total net revenues	$ 1,101,445	100.0%	$ 1,127,513	100.0%	$ (26,068)	(2.3)%

The decrease in total net revenues for the three months ended May 3, 2014, compared to the three months ended April 27, 2013, primarily reflects lower sales for our IP Networking products, partially offset by increase in sales for our Global Services and SAN products.

- The increase in SAN product revenues was caused by an increase in switch and server product revenues, partially offset by a decrease in director product revenue, due to demand changes from our OEM partners. We continue to maintain a positive view of the long-term SAN market despite a soft storage market in the near term. Our average selling price per port decreased by 4.4% during the three months ended May 3, 2014, which was offset by the 5.3% increase in the number of ports shipped during the same period, resulting in higher SAN product revenues for the three months ended May 3, 2014;
- The decrease in IP Networking product revenues primarily reflects lower revenues from our IP routing, adapter, and application delivery products due to the divestiture of the network adapter business, our shift in strategy with respect to our ADX product line, our wireless business and certain other product lines. These decreases were partially offset by an increase in our Ethernet switch products for data center and campus customers. Based on our analysis of the information we collect in our sales management system, we estimate that revenues from our U.S. federal government and enterprise end customers, as well as network carrier customers have decreased for the three months ended May 3, 2014, compared with the three months ended April 27, 2013. The decrease in revenues from our U.S. federal government, enterprise end customers, and network carrier customers is due to the current challenging U.S. federal budget environment and due to lower demand from our enterprise and network carrier end customers. As the percentage of our IP Networking products being sold through two-tier distribution has increased, it has become increasingly difficult to quantify our revenues by end customer, and, therefore, these results are based solely on our estimates; and
- The increase in Global Services revenues was primarily attributable to an additional week of amortized support revenue from the 14-week quarter in the second quarter of fiscal year 2014 and an increase in the revenue recognized from sales of initial support contracts and renewal support contracts for our SAN products, partially offset by a decrease in the sale of professional services.

The decrease in total net revenues for the six months ended May 3, 2014, compared with the six months ended April 27, 2013, reflects lower sales of our IP Networking and SAN products, partially offset by higher sales of our Global Services offerings, as further described below.

- The decrease in SAN product revenues was caused by a decrease in director product revenue, partially offset by an increase in switch and server product revenues, due to demand changes from our OEM partners. We continue to maintain a positive view of the long-term SAN market despite a soft storage market in the near term. Our average selling price per port decreased by 4.3% during the six months ended May 3, 2014, as compared with the same period in the prior year, which was partially offset by the 3.8% increase in the number of ports shipped during the same period;
- The decrease in IP Networking product revenues primarily reflects lower revenues from our IP routing and application delivery products. Based on our analysis of the information we collect in our sales management system, we estimate that revenues from our U.S. federal government and enterprise end customers, as well as network carrier customers, have decreased for the six months ended May 3, 2014, compared with the six months ended April 27, 2013. The decrease in revenues from our U.S. federal government and enterprise end customers is due to the current challenging federal budget environment, and due to lower demand in the United States and Japan. As the percentage of our IP Networking products being sold through two-tier distribution has increased, it has become increasingly difficult to quantify our revenues by end customer, and, therefore, these results are based solely on our estimates; and
- The increase in Global Services revenues was primarily attributable to an additional week of amortized support revenue from the 14-week quarter in the second quarter of fiscal year 2014 and an increase in the revenue recognized from sales of initial support contracts and renewal support contracts for both our SAN products and IP Networking products.

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

	Three Months Ended					
	May 3, 2014	% of Net Revenues	April 27, 2013	% of Net Revenues	Increase/ (Decrease)	% Change
United States	$ 314,216	58.5%	$ 314,581	58.4%	$ (365)	(0.1)%
Europe, the Middle East and Africa [1]	141,903	26.4%	145,673	27.0%	(3,770)	(2.6)%
Asia Pacific	41,402	7.7%	42,001	7.8%	(599)	(1.4)%
Japan	25,999	4.9%	27,356	5.1%	(1,357)	(5.0)%
Canada, Central and South America	13,390	2.5%	9,173	1.7%	4,217	46.0 %
Total net revenues	$ 536,910	100.0%	$ 538,784	100.0%	$ (1,874)	(0.3)%

(1) Includes net revenues of $89.9 million and $93.4 million for the three months ended May 3, 2014, and the three months ended April 27, 2013, respectively, relating to the Netherlands.

	Six Months Ended					
	May 3, 2014	% of Net Revenues	April 27, 2013	% of Net Revenues	Increase/ (Decrease)	% Change
United States	$ 638,131	57.9%	$ 678,633	60.2%	$ (40,502)	(6.0)%
Europe, the Middle East and Africa [2]	299,831	27.2%	288,091	25.5%	11,740	4.1 %
Asia Pacific	92,458	8.4%	89,052	7.9%	3,406	3.8 %
Japan	46,079	4.2%	52,835	4.7%	(6,756)	(12.8)%
Canada, Central and South America	24,946	2.3%	18,902	1.7%	6,044	32.0 %
Total net revenues	$ 1,101,445	100.0%	$ 1,127,513	100.0%	$ (26,068)	(2.3)%

(2) Includes net revenues of $192.9 million and $177.4 million for the six months ended May 3, 2014, and the six months ended April 27, 2013, respectively, relating to the Netherlands.

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 end-user location data does indicate that international revenues comprise a larger percentage of our total net revenues than the attributed revenues above may indicate.

International revenues for the three months ended May 3, 2014, were relatively unchanged as a percentage of total net revenues compared to the three months ended April 27, 2013. International revenues for the six months ended May 3, 2014, increased as a percentage of total net revenues compared with the six months ended April 27, 2013, primarily due to lower revenue from IP Networking products sold into the U.S federal market.

A significant portion of our revenues are concentrated among a relatively small number of OEM customers. For the three months ended May 3, 2014, four customers accounted for 17%, 16%, 12%, and 11%, respectively, of our total net revenues for a combined total of 56% of total net revenues. For the three months ended April 27, 2013, three customers accounted for 18%, 16%, and 11%, respectively, of our total net revenues for a combined total of 45% of total net revenues. We expect that a significant portion of our future revenues will continue to come from sales of products to a relatively small number of OEM partners and to the U.S. federal government and its individual agencies through our distributors and resellers. Therefore, the loss of, or significant decrease in the level of sales to, or a change in the ordering pattern of any one of, these customers could seriously harm our financial condition and results of operations.

Gross margin. Gross margin as stated below is indicated as a percentage of the respective segment net revenues, except for total gross margin, which is stated as a percentage of total net revenues.

Gross margin is summarized as follows (in thousands, except percentages):

	Three Months Ended					
	May 3, 2014	% of Net Revenues	April 27, 2013	% of Net Revenues	Increase/ (Decrease)	% Points Change
SAN Products	$ 236,650	73.7%	$ 231,191	72.5%	$ 5,459	1.2%
IP Networking Products	63,359	52.3%	55,956	42.2%	7,403	10.1%
Global Services	54,283	57.4%	46,965	54.0%	7,318	3.4%
Total gross margin	$ 354,292	66.0%	$ 334,112	62.0%	$ 20,180	4.0%

	Six Months Ended					
	May 3, 2014	% of Net Revenues	April 27, 2013	% of Net Revenues	Increase/ (Decrease)	% Points Change
SAN Products	$ 499,165	73.8%	$ 495,972	72.8%	$ 3,193	1.0%
IP Networking Products	122,422	50.8%	119,047	43.6%	3,375	7.2%
Global Services	105,375	57.3%	93,018	53.6%	12,357	3.7%
Total gross margin	$ 726,962	66.0%	$ 708,037	62.8%	$ 18,925	3.2%

The gross margin percentage for each reportable segment increased for the three months ended May 3, 2014, compared with the three months ended April 27, 2013, primarily due to the following factors (the percentages below reflect the impact on gross margin):

- SAN gross margins relative to net revenues increased primarily due to a 1.2% decrease in manufacturing overhead costs primarily due to lower headcount, lower freight costs, and lower outside services spending, partially offset by an increase in variable performance-based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014;
- IP Networking gross margins relative to net revenues increased primarily due to a 6.9% decrease in amortization of IP Networking-related intangible assets, as most of these assets were acquired during the acquisition of Foundry Networks, LLC (“Foundry”) and were fully amortized prior to the three months ended May 3, 2014. In addition, manufacturing overhead costs decreased 2.3%, relative to net revenues, primarily due to lower overhead labor cost, lower freight costs, and lower outside services spending, partially offset by an increase in variable performance-based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014. Product costs also decreased 1.4%, relative to net revenues, which is mainly attributable to a more favorable mix of IP Networking products as well as product cost reductions resulting from our ongoing efforts to reduce costs with our suppliers; and
- Global Services gross margins relative to net revenues increased primarily due to a 3.2% decrease in service and support costs relative to net revenues, due to a decrease in period costs resulting primarily from lower overhead labor cost, and lower rework expenses, partially offset by an increase in variable performance-based compensation for the

three months ended May 3, 2014. The decrease in service and support costs relative to net revenues was also due to lower legal, IT and facilities expenses allocated to Global Services.

Gross margin percentage for each reportable segment increased for the six months ended May 3, 2014, compared with the six months ended April 27, 2013, primarily due to the following factors (the percentages below reflect the impact on gross margin):

- SAN gross margins relative to net revenues increased due to a 0.9% decrease in manufacturing overhead costs primarily due to lower overhead labor cost, lower freight costs and lower outside services spending, partially offset by an increase in variable performance-based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014. In addition, SAN gross margins relative to net revenues increased due to a 0.2% decrease in amortization of SAN-related intangible assets, relative to net revenues. These decreases were partially offset by a 0.2% increase in product and other costs relative to net revenues;
- IP Networking gross margins relative to net revenues increased primarily due to a 4.2% decrease in amortization of IP Networking-related intangible assets, as most of these assets were acquired during the acquisition of Foundry and were fully amortized prior to the three months ended May 3, 2014, and a 2.3% decrease in product costs, which is mainly attributable to a more favorable mix of IP Networking products as well as product cost reductions resulting from our ongoing efforts to reduce costs with our suppliers, in each case, relative to net revenues; and
- Global Services gross margins relative to net revenues increased primarily due to a 3.3% decrease in service and support costs relative to net revenues, due to a decrease in period costs, primarily resulting from lower overhead labor cost, and lower rework expenses, partially offset by an increase in variable performance-based compensation for the six months ended May 3, 2014. The decrease in service and support costs relative to net revenues was also due to lower legal, IT and facilities expenses allocated to Global Services.

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

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

	May 3, 2014		April 27, 2013			
Research and development expense:	**Expense**	**% of Net Revenues**	**Expense**	**% of Net Revenues**	**Increase/ (Decrease)**	**% Change**
Three months ended	$ 90,554	16.9%	$ 98,429	18.3%	$ (7,875)	(8.0)%
Six months ended	$ 177,710	16.1%	$ 196,119	17.4%	$ (18,409)	(9.4)%

R&D expenses decreased for the three months ended May 3, 2014, compared with the three months ended April 27, 2013, due to the following (in thousands):

	Increase (Decrease)
Engineering expense	$ (2,959)
Expenses related to legal, IT, facilities and other shared functions	(2,450)
Depreciation and amortization expense	(1,121)
Salaries and other compensation	(882)
Various individually insignificant items	(463)
Total change	$ (7,875)

Engineering expense decreased primarily due to lower nonrecurring engineering spending related to new product development and lower prototype costs for the three months ended May 3, 2014. Expenses related to legal, IT, facilities and other shared functions allocated to R&D activities decreased primarily due to overall decreased costs with respect to IT-related projects and IT personnel, due to lower facilities costs as part of our spending reduction plan, as well as due to lower overall legal expense resulting from the settlement of litigation matters during fiscal year 2013. Depreciation and amortization expense decreased primarily due to a decrease in engineering capital spending. In addition, salaries and other compensation decreased primarily due to decreased engineering headcount and a related decrease in payroll expense, partially offset by an increase in

variable performance-based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014.

R&D expenses decreased for the six months ended May 3, 2014, compared with the six months ended April 27, 2013, due to the following (in thousands):

	Increase (Decrease)
Engineering expense	$ (5,906)
Expenses related to legal, IT, facilities and other shared functions	(5,301)
Outside services expense	(3,026)
Depreciation and amortization expense	(1,675)
Salaries and other compensation	(909)
Various individually insignificant items	(1,592)
Total change	$ (18,409)

Engineering expense decreased primarily due to lower nonrecurring engineering spending related to new product development and lower prototype costs for the six months ended May 3, 2014. Expenses related to legal, IT, facilities and other shared functions allocated to R&D activities decreased overall primarily due to decreased costs with respect to IT-related projects and IT personnel, due to lower facilities costs as part of our spending reduction plan, as well as due to lower overall legal expense resulting from the settlement of litigation matters during fiscal year 2013. Outside services expense decreased primarily due to a reduction in outside engineering services and decreased support expenses for our engineering laboratories. Depreciation and amortization expense decreased primarily due to a decrease in engineering capital spending. In addition, salaries and other compensation decreased primarily due to decreased engineering headcount and a related decrease in payroll expense, partially offset by an increase in variable performance-based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014.

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

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

	May 3, 2014		April 27, 2013			
Sales and marketing expense:	**Expense**	**% of Net Revenues**	**Expense**	**% of Net Revenues**	**Increase/ (Decrease)**	**% Change**
Three months ended	$ 139,597	26.0%	$ 145,316	27.0%	$ (5,719)	(3.9)%
Six months ended	$ 272,262	24.7%	$ 294,327	26.1%	$ (22,065)	(7.5)%

Sales and marketing expenses decreased for the three months ended May 3, 2014, compared with the three months ended April 27, 2013, due to the following (in thousands):

	Increase (Decrease)
Expenses related to legal, IT, facilities and other shared functions	$ (6,965)
Various individually insignificant items	(399)
The decrease in S&M expenses was partially offset by a increase in:	
Outside services and other marketing expense	1,195
Stock-based compensation expense	450
Total change	$ (5,719)

Expenses related to legal, IT, facilities and other shared functions allocated to sales and marketing activities decreased primarily due to decreased overall costs with respect to IT-related projects and IT personnel, due to lower facilities costs as part of our spending reduction plan, as well as due to lower overall legal expense resulting from the settlement of litigation matters during fiscal year 2013. Outside services and other marketing expense increased primarily due to increased costs related to our company-wide salesforce training delivered during the three months ended May 3, 2014, partially offset by lower spending on conferences and trade shows in the three months ended May 3, 2014. Stock-based compensation expense increased primarily

due to an increase in the grant date per-unit fair values of restricted stock units granted to employees in recent quarters, as well as due to an increase in stock option grants made in fiscal year 2013 (see Note 11, "Stock-Based Compensation," of the Notes to Condensed Consolidated Financial Statements).

Sales and marketing expenses decreased for the six months ended May 3, 2014, compared with the six months ended April 27, 2013, due to the following (in thousands):

		Increase (Decrease)
Expenses related to legal, IT, facilities and other shared functions	$	(11,415)
Salaries and other compensation		(5,969)
Outside services and other marketing expense		(3,196)
Stock-based compensation expense		(930)
Various individually insignificant items		(555)
Total change	$	(22,065)

Expenses related to legal, IT, facilities and other shared functions allocated to sales and marketing activities decreased primarily due to decreased overall costs with respect to IT-related projects and IT personnel, due to lower facilities costs as part of our spending reduction plan, as well as due to lower overall legal expense resulting from the settlement of litigation matters during fiscal year 2013. Salaries and other compensation decreased primarily due to decreased headcount, partially offset by an increase in variable performance-based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014. Outside services and other marketing expense decreased primarily due to less spending on advertising and other marketing, as well as on conferences and trade shows, in the six months ended May 3, 2014, partially offset by increased costs related to salesforce training delivered during the six months ended May 3, 2014. Stock-based compensation expense decreased primarily due to a decline in the Employee Stock Purchase Plan ("ESPP") expense as a result of certain offering periods being closer to the end of the offering period in the six months ended May 3, 2014. Our ESPP offering periods include four purchase periods, and expense related to each of these purchase periods is amortized over six, twelve, eighteen and twenty-four months starting from the beginning date of the offering period. This results in higher amortization expense at the beginning of the offering period compared with amortization expense closer to the end of the offering period (see Note 11, "Stock-Based Compensation," of the Notes to Condensed Consolidated Financial Statements).

General and administrative expenses. General and administrative ("G&A") expenses consist primarily of compensation and related expenses for corporate management, finance and accounting, human resources, legal, IT, facilities and investor relations, as well as recruiting expenses, professional fees, and other corporate expenses, less certain expenses allocated to other functions as described above.

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

	May 3, 2014		April 27, 2013			
G&A expense:	**Expense**	**% of Net Revenues**	**Expense**	**% of Net Revenues**	**Increase/ (Decrease)**	**% Change**
Three months ended	$ 21,112	3.9%	$ 20,037	3.7%	$ 1,075	5.4%
Six months ended	$ 41,255	3.7%	$ 39,114	3.5%	$ 2,141	5.5%

G&A expenses increased for the three months ended May 3, 2014, compared with the three months ended April 27, 2013, due to the following (in thousands):

		Increase (Decrease)
Stock-based compensation expense	$	1,575
The increase in G&A expenses was partially offset by a decrease in:		
Salaries, other compensation and other expenses		(500)
Total change	$	1,075

Stock-based compensation expense increased primarily due to an increase in the grant date per-unit fair values of restricted stock units granted to employees in recent quarters, as well as due to an increase in stock option grants made in fiscal year 2013 (see Note 11, "Stock-Based Compensation," of the Notes to Condensed Consolidated Financial Statements). Salaries, other compensation and other expenses decreased primarily due to decreased headcount, partially offset by an increase in

variable performance based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014.

G&A expenses increased for the six months ended May 3, 2014, compared with the six months ended April 27, 2013, due to the following (in thousands):

	Increase (Decrease)	
Stock-based compensation expense	$	3,546
The increase in G&A expenses was partially offset by a decrease in:		
Salaries, other compensation and other expenses		(1,405)
Total change	$	2,141

Stock-based compensation expense increased primarily due to an increase in the grant date per-unit fair values of restricted stock units granted to employees in recent quarters, as well as due to an increase in stock option grants made in fiscal year 2013 (see Note 11, "Stock-Based Compensation," of the Notes to Condensed Consolidated Financial Statements). Salaries, other compensation and other expenses decreased primarily due to decreased headcount, partially offset by an increase in variable performance-based compensation and an additional week of payroll expense from the 14-week quarter in the second quarter of fiscal year 2014.

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

	May 3, 2014		April 27, 2013			
Amortization of intangible assets:	**Expense**	**% of Net Revenues**	**Expense**	**% of Net Revenues**	**Increase/ (Decrease)**	**% Change**
Three months ended	$ 131	—%	$ 13,151	2.4%	$ (13,020)	(99.0)%
Six months ended	$ 10,014	0.9%	$ 28,007	2.5%	$ (17,993)	(64.2)%

The decrease in amortization of intangible assets for the three and six months ended May 3, 2014, compared with the three and six months ended April 27, 2013, was primarily due to the completion of amortization of certain of our intangible assets (see Note 4, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements).

Restructuring, goodwill impairment, and other related costs. Restructuring, goodwill impairment, and other related costs are summarized as follows (in thousands, except percentages):

	May 3, 2014		April 27, 2013			
Restructuring, goodwill impairment, and other related costs:	**Expense**	**% of Net Revenues**	**Expense**	**% of Net Revenues**	**Increase/ (Decrease)**	**% Change**
Three months ended	$ 82,703	15.4%	$ —	—%	$ 82,703	*
Six months ended	$ 88,920	8.1%	$ —	—%	$ 88,920	*

* Not meaningful

In May 2013, we announced that we were making certain changes in our strategic direction by focusing on key technology segments, such as our SAN fabrics, Ethernet fabrics and software networking products, for the data center. As a result, during the fiscal year ended October 26, 2013, we reevaluated our business model to restructure certain business operations, reorganize certain business units, and reduce our operating expense structure. In connection with this restructuring plan, we incurred restructuring charges and other costs primarily related to severance and benefits charges and lease loss reserve and related costs. We substantially completed the restructuring plan by the end of the first quarter of fiscal year 2014.

As we continue to balance our remaining resources related to the restructuring plan, we made the decision to reduce our investment in the hardware-based ADX products and to increase investment in the software-based ADX products for the Layer 4-7 market during the three months ended May 3, 2014. As a result of this decision, we expect hardware-based ADX and related support revenue to be negatively impacted by $20 million to $40 million on an annualized basis. Based on the decrease in the hardware-based ADX revenue forecast, we recognized an $83.4 million goodwill impairment charge during the second quarter of fiscal year 2014.

Restructuring, goodwill impairment, and other related costs for the three months ended May 3, 2014, were primarily due to the $83.4 million of goodwill impairment, slightly offset by changes in estimates for our previously established lease loss reserves.

Restructuring, goodwill impairment, and other related costs for the six months ended May 3, 2014, were primarily due to the $83.4 million in goodwill impairment and $7.3 million in estimated lease loss reserve and related costs recorded during the six months ended May 3, 2014, partially offset by a $1.8 million reduction in expense for severance and benefits due to actual cash payments made during the six months ended May 3, 2014, being lower than originally estimated (see Note 7, “Restructuring and Other Costs,” of the Notes to Condensed Consolidated Financial Statements).

We did not incur any restructuring or other related costs during the six months ended April 27, 2013.

As a result of the completion of our restructuring plan and other related spending changes, our cost of revenues and other operating expenses have been reduced by more than $100 million on an annualized basis relative to cost of revenues and other operating expenses incurred during the first quarter of fiscal year 2013. We anticipate that these savings will carry over into future periods; however, actual savings realized may differ if our assumptions are incorrect or if other unanticipated events occur. Savings may also be offset, or additional expenses incurred, if and when we make additional investments in new technologies or solutions related to our strategy in the future, or if we decide to strengthen our networking portfolios through acquisitions and strategic investments.

Combining the change in strategy for our ADX products with the other rebalancing actions taken through the first quarter of fiscal year 2014, which, among other actions, included our divestiture of our network adapter business and the change in our wireless business strategy, we believe our changes in strategic direction will cause our annualized revenues to be lower by approximately $80 million to $100 million compared with fiscal year 2013.

Gain on sale of network adapter business. During the six months ended May 3, 2014, a gain of $4.9 million was recorded in connection with the sale of our network adapter business to QLogic Corporation (“QLogic”) (see Note 3, “Acquisitions and Divestitures,” of the Notes to Condensed Consolidated Financial Statements). We had no similar divestitures during the six months ended April 27, 2013.

Interest expense. Interest expense primarily represents the interest cost associated with our senior secured notes and senior unsecured notes (see Note 8, “Borrowings,” of the Notes to Condensed Consolidated Financial Statements). Interest expense is summarized as follows (in thousands, except percentages):

	May 3, 2014		April 27, 2013			
Interest expense:	**Expense**	**% of Net Revenues**	**Expense**	**% of Net Revenues**	**(Increase)/ Decrease**	**% Change**
Three months ended	$ (9,234)	(1.7)%	$ (10,432)	(1.9)%	$ 1,198	(11.5)%
Six months ended	$ (18,430)	(1.7)%	$ (36,800)	(3.3)%	$ 18,370	(49.9)%

Interest expense decreased for the six months ended May 3, 2014, compared with the six months ended April 27, 2013, primarily due to the $15.3 million expense that we recorded in the first quarter of fiscal year 2013, for the call premium, debt issuance costs and original issue discount relating to the redemption of our 6.625% senior secured notes due (the “2018 Notes”), in accordance with the applicable accounting guidance for debt modification and extinguishment, and for interest cost accounting, (additionally, see Note 8, “Borrowings,” of the Notes to Condensed Consolidated Financial Statements).

The decrease in interest expense was also due to the refinancing of the 2018 Notes to a lower interest rate. In January 2013, we issued $300.0 million in aggregate principal amount of 4.625% Senior Notes due 2023 (the “2023 Notes”) in a private placement (the “Offering”). The proceeds from the Offering, together with cash on hand, were used on February 21, 2013, to redeem all of the outstanding 2018 Notes, which had a higher interest rate. The transactions are described further below in “Liquidity and Capital Resources.”

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

Interest and other income (loss), net:	May 3, 2014		April 27, 2013			
	Loss	% of Net Revenues	Income	% of Net Revenues	Increase/ (Decrease)	% Change
Six months ended	$ (1,356)	(0.1)%	$ 97	—%	$ (1,453)	*

* Not meaningful

Interest and other income (loss), net, for the six months ended May 3, 2014, was primarily related to the loss on the sale of certain property and equipment during the period. Interest and other income (loss), net was not significant for the three months ended May 3, 2014, and the three and six months ended April 27, 2013.

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

	Three Months Ended		Six Months Ended	
	May 3, 2014	April 27, 2013	May 3, 2014	April 27, 2013
Income tax expense (benefit)	$ 24,625	$ (171)	$ 54,699	$ 88,073
Effective tax rate	225.1%	(0.4)%	44.9%	77.4%

In general, our provision for income taxes differs from tax computed at the U.S. federal statutory tax rate of 35% due to state taxes, the effect of non-U.S. operations, nondeductible stock-based compensation expense and adjustments to unrecognized tax benefits.

The effective tax rates for the three and six months ended May 3, 2014, were higher than the federal statutory rate of 35% primarily due to a goodwill impairment charge of $83.4 million, which is non-deductible for tax purposes, and an increase in certain unrecognized tax benefits, partially offset by effects of earnings in foreign jurisdictions taxed at rates lower than the U.S. federal statutory tax rate (additionally, see Note 13, “Income Taxes,” of the Notes to Condensed Consolidated Financial Statements).

The effective tax rate for the three months ended April 27, 2013, was lower than the federal statutory rate of 35% primarily due to a discrete benefit from reserve releases resulting from audit settlements. In addition, the effective tax rate for the six months ended April 27, 2013, was higher than the federal statutory tax rate of 35% primarily due to a charge of $78.2 million to reduce our previously recognized California deferred tax assets as a result of a change in California tax law. This charge was partially offset by an increase in foreign earnings, discrete benefits from reserve releases resulting from audit settlements, and an increase in the federal research and development tax credit that was reinstated on January 2, 2013, for calendar year 2013 and made retroactive to January 1, 2012.

Based on our fiscal year 2014 financial forecast, we expect our effective tax rate in fiscal year 2014 to be lower than that of fiscal year 2013. Factors such as the mix of IP Networking versus SAN products, which have different gross margins, and domestic versus international profits affect our tax expense. As estimates and judgments are used to project such domestic and international earnings, the impact to our tax provision could vary if the current planning or assumptions change. 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. In addition, we do not forecast discrete events, such as settlement of tax audits with governmental authorities, due to their inherent uncertainty. Such settlements have in the past and could in the future materially impact our tax expense. Given that the tax rate is affected by several different factors, it is not possible to estimate our future tax rate with a high degree of certainty.

The Internal Revenue Service (“IRS”) and other tax authorities regularly examine our income tax returns. The IRS is currently examining our federal tax returns for fiscal years 2009 and 2010. In addition, we are in negotiations with foreign tax authorities to obtain correlative relief on transfer pricing adjustments previously settled with the IRS. We believe that our reserves for unrecognized tax benefits are adequate for all open tax years. The timing of income tax examinations, as well as the amounts and timing of related settlements, if any, are highly uncertain. We believe that, before the end of fiscal year 2014, it is reasonably possible that either certain audits will conclude or the statutes of limitations relating to certain income tax examination periods will expire, or both. After we reach settlement with the tax authorities, we expect to record a corresponding adjustment to our unrecognized tax benefits. Taking into consideration the inherent uncertainty as to settlement terms, the timing of payments and the impact of such settlements on other uncertain tax positions, we estimate the range of potential

decreases in underlying uncertain tax positions is between $0 and $5.0 million in the next 12 months. For additional discussion, see Note 13, "Income Taxes," of the Notes to Condensed Consolidated Financial Statements.

We believe that sufficient positive evidence exists from historical operations and projections of taxable income in future years to conclude that it is more likely than not that we will realize our deferred tax assets, except for certain California deferred tax assets and capital loss carryforwards. Accordingly, we apply a valuation allowance to the California deferred tax assets due to the 2012 change in California law and to capital loss carryforwards due to the limited carryforward periods of these tax assets.

Liquidity and Capital Resources

	May 3, 2014	October 26, 2013	Increase/ (Decrease)
		(In thousands)	
Cash and cash equivalents	$ 1,137,613	$ 986,997	$ 150,616
Percentage of total assets	32%	27%	

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

In January 2013, we issued $300.0 million of the 2023 Notes in the Offering. On January 22, 2013, we called the 2018 Notes for redemption. On February 21, 2013, we used the net proceeds from the Offering, together with cash on hand, to redeem all of our outstanding 2018 Notes, including the payment of the applicable premium and expenses associated with the redemption, and the interest on the 2018 Notes up to the date of redemption (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements).

On November 9, 2012, we completed our acquisition of Vyatta, Inc. ("Vyatta"). The total purchase price was $44.8 million, consisting of a $43.6 million cash consideration, $7.0 million of which was held in escrow for a period of 18 months from the closing of the acquisition, and $1.2 million related to prepaid license fees paid to Vyatta that was effectively settled at the recorded amount as a result of the acquisition. In May 2014, the $7.0 million cash consideration was released from escrow upon resolution of certain contingencies (see Note 3, "Acquisitions and Divestitures," of the Notes to Condensed Consolidated Financial Statements).

Based on past performance and current expectations, we believe that internally generated cash flows and cash on hand are generally sufficient to support business operations, capital expenditures, contractual obligations, and other liquidity requirements associated with our operations for at least the next 12 months, including our debt service requirements. Also, we have up to $125.0 million available under our revolving credit facility, and we can factor up to an aggregate amount of $50.0 million of our trade receivables under our 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 of, availability of, or our requirements for capital resources.

Financial Condition

Cash and cash equivalents as of May 3, 2014, increased by $150.6 million over the balance as of October 26, 2013, primarily due to the cash generated from operations, proceeds from the issuance of our common stock in connection with employee participation in our equity compensation plans, and proceeds from the sale of our network adapter business, partially offset by the cash used for the purchases of property and equipment and the repurchase of outstanding shares of our common stock.

In September 2013, we announced our intent to return at least 60% of our adjusted free cash flow to investors in the form of share repurchases or other alternatives such as dividends. In the third quarter of fiscal year 2014, our Board of Directors initiated a quarterly cash dividend of $0.035 per share of our common stock. The first dividend payment will be made on July 2, 2014, to stockholders of record as of the close of market on June 10, 2014. Future dividend payments are subject to review and approval by our Board of Directors.

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 we receive proceeds from these plans can increase or decrease based upon changes in the market price of our common stock, and from the amount and type of awards

granted to employees. For example, a change in the mix of granted restricted stock unit and stock option awards towards granting fewer stock option awards reduces the net proceeds from the issuance of common stock in connection with employee participation in our equity compensation plans. As a result, our cash flow resulting from the issuance of common stock in connection with employee participation in equity compensation plans will vary.

A majority of our accounts receivable balance is derived from sales to our OEM partners. As of May 3, 2014, three customers individually accounted for 15%, 11%, and 11% of total accounts receivable, for a combined total of 37% of total accounts receivable. As of October 26, 2013, four customers individually accounted for 18%, 12%, 11%, and 11% of total accounts receivable, for a combined total of 52% 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.

Six Months Ended May 3, 2014, Compared to Six Months Ended April 27, 2013

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

Net cash provided by operating activities increased by $98.6 million primarily due to increased accounts receivable collections and decreased payments with respect to accrued employee incentive compensation, partially offset by an increase in excess tax benefits from stock-based compensation. The six months ended May 3, 2014, only includes a semiannual payout of the employee incentive compensation for the second half of fiscal year 2013 due to a change in our employee incentive compensation plan structure. The first quarter of fiscal year 2013 includes an annual payout of the employee incentive compensation for fiscal year 2012 .

Investing Activities. Net cash used in investing activities decreased by $58.8 million. The decrease was primarily due to the $44.6 million of cash used for the Vyatta acquisition during the first quarter of fiscal year 2013. The decrease was also due to cash received from QLogic for the purchase of our network adapter business during the first quarter of fiscal year 2014, as well as lower capital expenditures during the six months ended May 3, 2014.

Financing Activities. Net cash used in financing activities increased by $60.1 million. The increase was primarily due to higher repurchases of our Company's stock, partially offset by higher proceeds from the issuance of common stock pursuant to our equity compensation plans during the six months ended May 3, 2014, as well as an increase in excess tax benefits from stock-based compensation.

Liquidity

Manufacturing and Purchase Commitments. We have manufacturing arrangements with contract manufacturers under which we provide 12 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 12 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 to be indefinitely reinvested outside of the United States. We intend to indefinitely reinvest current and accumulated earnings of our foreign subsidiaries for expansion of our business operations outside the United States.

Our existing cash and cash equivalents totaled $1,137.6 million as of May 3, 2014. Of this amount, approximately 61% was held by our foreign subsidiaries. We do not currently anticipate a need for these funds held by our foreign subsidiaries for our domestic operations and our intent is to permanently reinvest such funds outside of the United States. Under current tax laws and regulations, if these funds are distributed to any of our United States entities in the form of dividends or otherwise, we may be subject to additional United States income taxes and foreign withholding taxes.

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. In October 2008, we entered into a credit agreement 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 sub-facility and a $25.0 million letter of credit sub-facility (the "Senior Secured Credit Facility"). The credit agreement was subsequently amended in January 2010, June 2011, October 2013 and April 2014 to, among other things, provide us with greater operating flexibility, reduce interest rates on the term loan facility, reduce interest rates and fees on the revolving credit

facility and extend the maturity date of the revolving credit facility to January 7, 2015 (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements).

We prepaid the term loan in full in the fourth quarter of fiscal year 2012, and there were no principal amounts or commitments outstanding under the term loan facility as of either May 3, 2014, or October 26, 2013. We have the following amount available for borrowing under the Senior Secured Credit Facility for ongoing working capital and other general corporate purposes, if needed, as of May 3, 2014 (in thousands):

	Original Amount Available	May 3, 2014	
		Used	Available
Revolving credit facility	$ 125,000	$ —	$ 125,000

Senior Secured Notes. In January 2010, we issued $300.0 million in aggregate principal amount of senior secured notes due 2018 (the "2018 Notes") and $300.0 million in aggregate principal amount of senior secured notes due 2020 (the "2020 Notes" and together with the 2018 Notes, the "Senior Secured Notes") (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements). We used the proceeds to pay down a substantial portion of the outstanding term loan, and to retire the convertible subordinated debt due on February 15, 2010, which had been assumed in connection with our acquisition of McDATA Corporation. The 2018 Notes were redeemed in the second quarter of fiscal year 2013, as described further below.

Senior Unsecured Notes. In January 2013, we issued $300.0 million in aggregate principal amount of the 2023 Notes. We used the proceeds and cash on hand to redeem all of the outstanding 2018 Notes in the second quarter of fiscal year 2013, as described in 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. No trade receivables were sold under our factoring facility during the six months ended May 3, 2014, and the six months ended April 27, 2013.

Under the terms of the factoring agreement, the total and available amounts of the factoring facility as of May 3, 2014, were $50.0 million.

Covenant Compliance.

Senior Unsecured Notes Covenants. The 2023 Notes were issued pursuant to an indenture, dated as of January 22, 2013, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee (the "2023 Indenture"). The 2023 Indenture contains covenants that, among other things, restrict the ability of the Company and its subsidiaries to:

- Incur certain liens and enter into certain sale-leaseback transactions;
- Create, assume, incur or guarantee additional indebtedness of the Company's subsidiaries without such subsidiary guaranteeing the 2023 Notes on a pari passu basis; and
- Consolidate or merge with, or convey, transfer or lease all or substantially all of the Company's or its subsidiaries' assets.

These covenants are subject to a number of other limitations and exceptions set forth in the indenture. The Company was in compliance with all applicable covenants of the 2023 Indenture as of May 3, 2014.

Senior Secured Notes Covenants. The 2020 Notes and the 2018 Notes were issued pursuant to two separate indentures (the “2020 Indenture” and the “2018 Indenture,” respectively), each dated as of January 20, 2010, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee. The 2020 Indenture 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 limitations and exceptions set forth in the indenture. The Company was in compliance with all applicable covenants of the 2020 Indenture as of May 3, 2014. The 2018 Indenture was discharged as of January 22, 2013 (see Note 8, “Borrowings,” of the Notes to Condensed Consolidated Financial Statements). Prior to discharge, the 2018 Indenture contained substantially similar covenants and events of default to those in the 2020 Indenture. The Company was in compliance with all applicable covenants of the 2018 Indenture as of the date of discharge.

The 2020 Indenture 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 the 2020 Indenture occurs or is continuing, the applicable trustee or holders of at least 25% in aggregate principal amount of the then outstanding 2020 Notes, as applicable, may declare all of the 2020 Notes to be due and payable immediately.

Senior Secured Credit Facility Covenants. The credit agreement governing the Senior Secured Credit Facility 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 and a maximum consolidated 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 Senior Secured Credit Facility covenants as of May 3, 2014.

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

- Consolidated net income;

Plus:

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

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

Minus:

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

The financial covenants imposed under the Senior Secured Credit Facility are described below.

Consolidated Fixed Charge Coverage Ratio. Consolidated fixed charge coverage ratio means, at any date of determination, the ratio of (a) (i) consolidated EBITDA (excluding interest expense, if any, attributable to a 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. Under the terms of the credit agreement, the Company is required to maintain a minimum fixed charge coverage ratio of at least 1.75:1.

Consolidated fixed charges, as defined in the credit agreement, are comprised of the following:

- Consolidated interest charges;

Plus:

- Regularly scheduled principal payments or redemptions or similar acquisitions for value of outstanding debt for borrowed money, but excluding any such payments to the extent refinanced through the incurrence of additional indebtedness;
- Rentals payable under leases of real property;
- Restricted payments; and
- Federal, state, local and foreign income taxes paid in cash.

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. Under the terms of the credit agreement, the Company may not permit the consolidated leverage ratio at any time to exceed 3:1.

Contractual Obligations

The following table summarizes our contractual obligations, including interest expense, and commitments as of May 3, 2014 (in thousands):

	Total	Less Than 1 Year	1–3 Years	3–5 Years	More Than 5 Years
Contractual Obligations:					
Senior secured notes due 2020 [1]	$ 418,594	$ 20,625	$ 41,250	$ 41,250	$ 315,469
Senior unsecured notes due 2023 [1]	417,518	13,875	27,750	27,750	348,143
Non-cancellable operating leases [2]	61,585	10,658	32,343	11,771	6,813
Non-cancellable capital leases [1]	2,967	2,405	562	—	—
Purchase commitments, gross [3]	158,688	158,688	—	—	—
Total contractual obligations	$ 1,059,352	$ 206,251	$ 101,905	$ 80,771	$ 670,425
Other Commitments:					
Standby letters of credit	$ 156	n/a	n/a	n/a	n/a
Unrecognized tax benefits and related accrued interest [4]	$ 124,643	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 $19.6 million, which consists of $3.6 million to be received in less than one year, $13.5 million to be received in one to three years, and $2.5 million to be received in three to five years.

(3) Amount reflects total gross purchase commitments under our manufacturing arrangements with a third-party contract manufacturer. Of this amount, we have accrued $3.3 million for estimated purchase commitments that we do not expect to consume in normal operations within the next 12 months, in accordance with our policy.

(4) As of May 3, 2014, we had a gross liability for unrecognized tax benefits of $122.0 million and a net accrual for the payment of related interest and penalties of $2.6 million.

Share Repurchase Program. As of May 3, 2014, our Board of Directors had authorized a total of $2.0 billion for the repurchase of our common stock since the inception of the program in August 2004. The purchases may be made, from time to time, in the open market or by privately negotiated transactions, and are funded from available working capital. The number of shares to be purchased and the timing of purchases are based on the level of our cash balances, general business and market conditions, our debt covenants, the trading price of our common stock and other factors, including alternative investment opportunities. For the three months ended May 3, 2014, we repurchased 5.3 million shares for an aggregate purchase price of $50.1 million. Approximately $809.6 million remained authorized for future repurchases under this program as of May 3, 2014. Subsequently, between May 3, 2014, and the date of the filing of this Quarterly Report on Form 10-Q, we repurchased 8.3 million shares of our common stock for an aggregate purchase price of $70.1 million. We are subject to certain covenants relating to our borrowings that may potentially restrict the amount of our Company’s shares that we can repurchase. As of May 3, 2014, we were in compliance with all covenants.

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 May 3, 2014, we did not have any significant off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission (“SEC”) Regulation S-K.

Critical Accounting Estimates

There have been no material changes in the matters for which we make critical accounting estimates in the preparation of our condensed consolidated financial statements during the six months ended May 3, 2014, as compared to those disclosed in our Annual Report on Form 10-K for the fiscal year ended October 26, 2013.

Impairment of Goodwill and Other Indefinite-Lived Intangible Assets.

Goodwill and other indefinite-lived intangible assets are generated as a result of business combinations. Our indefinite-lived assets are comprised of acquired in-process research and development (“IPRD”) and goodwill.

IPRD Impairment Testing. IPRD is an intangible asset accounted as an indefinite-lived asset until the completion or abandonment of the associated research and development effort. During the development period, we conduct our IPRD impairment test annually, as of the first day of the second fiscal quarter, and whenever events or changes in facts and circumstances indicate that it is more likely than not that IPRD is impaired. Events that might indicate impairment include, but are not limited to, adverse cost factors, deteriorating financial performance, strategic decisions made in response to economic and competitive conditions, the impact of the economic environment on us and our customer base, and/or other relevant events such as changes in management, key personnel, litigations, or customers. Our ongoing consideration of all of these factors could result in IPRD impairment charges in the future, which could adversely affect our net income.

We performed our annual development period's IPRD impairment test using measurement data as of the first day of the second fiscal quarter of 2014. During the test, we first assessed qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of our IPRD asset is less than its carrying amount. After assessing the totality of events and circumstances, we determined that it was not more likely than not that the fair values of our IPRD assets were less than their carrying amounts and no further testing was required.

Goodwill Impairment Testing. We conduct our goodwill impairment test annually, as of the first day of the second fiscal quarter, and whenever events occur or facts and circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Events that 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. Our ongoing consideration of all of these factors could result in goodwill impairment charges in the future, which could adversely affect our net income.

We perform the two-step goodwill impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized, if any. The first step tests for potential impairment by comparing the fair value of reporting units with reporting units' net asset values. 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. If the fair value of the reporting unit exceeds the carrying value of the reporting unit's net assets, then goodwill is not impaired and no further testing is required. If the fair value of the reporting unit is below the reporting unit's carrying value, then the second step is required to measure the amount of potential impairment. The second step requires an assignment of the reporting unit's fair value to the reporting unit's assets and liabilities, using the relevant acquisition accounting guidance, 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 applying various observable market-based multiples to the reporting unit's operating results and then applying an appropriate control premium.

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

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

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

Consistent with prior years, we perform our annual goodwill impairment test using measurement data as of the first day of the second fiscal quarter of 2014. At the time of goodwill impairment testing, our reporting units were: SAN Products; Ethernet Switching & 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. As of the date of the fiscal year 2014 annual goodwill impairment testing, Ethernet Switching & IP Routing and ADP reporting units' goodwill carrying value was $1,102 million and $207 million, respectively. In the second quarter of fiscal year 2014, we changed our

internal financial reporting, realigning it with the changes in our strategic direction to focus on key technology segments. As a result of this change, Ethernet Switching & IP Routing and ADP business components were combined into the IP Networking Products operating segment, and separate discrete financial information is no longer available for either Ethernet Switching & IP Routing or ADP components.

During our fiscal year 2014 annual goodwill impairment test, we used a combination of the income approach and the market approach. We believe that, at the time of impairment testing performed in the second fiscal quarter of 2014, the income approach and the market approach were equally representative of a reporting unit's fair value.

During the first step of goodwill impairment testing, we determined that the fair value of the ADP reporting unit was below the reporting unit's carrying value. Accordingly, we performed the second step of goodwill impairment testing to measure the amount of the impairment. During the second step, we assigned the ADP reporting unit's fair value to the reporting unit's assets and liabilities, using the relevant acquisition accounting guidance, to determine the implied fair value of the reporting unit's goodwill. The implied fair value of the reporting unit's goodwill was then compared with the carrying value of the ADP reporting unit's goodwill to record an impairment loss equal to the difference in values. For additional information, see Note 4, "Goodwill and Intangible Assets," of the Notes to Condensed Consolidated Financial Statements.

During the first step of goodwill impairment testing, we determined that no impairment needed to be recorded for the SAN Products, Ethernet Switching & IP Routing, and Global Services reporting units as these reporting units passed the first step of goodwill impairment testing. 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 key assumptions impacting our estimates were (i) discount rates and (ii) discounted cash flow ("DCF") terminal value multipliers. As these assumptions ultimately reflect the risk of achieving reporting units' revenue and cash flow projections, we determined that a separate sensitivity analysis for changes in revenue and cash flow projections is not meaningful or useful.

The estimated fair value of the Ethernet Switching & IP Routing reporting unit exceeded its net assets' carrying value by approximately $57 million. The respective fair values of the SAN and Global Services reporting units were substantially in excess of these reporting units' carrying values and were not subject to the sensitivity analysis presented below.

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

	Change	Approximate Impact on Fair Value (In millions)	Excess of Fair Value over Carrying Value (In millions)
Discount rate	±1%	$(38) - 41	$19 - 98
DCF terminal value multiplier	±0.5x	$(33) - 33	$24 - 90

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Risk

Our exposure to market risk due to changes in the general level of U.S. interest rates relates primarily to our cash equivalents. Our cash and cash equivalents are primarily maintained at 4 major financial institutions. The primary objective of our investment activities is the preservation of principal while maximizing investment income and minimizing risk.

The Company did not have any material borrowings as of May 3, 2014, that were sensitive to changes in interest rates. The Company had $731.3 million invested in money market funds as of May 3, 2014, which were not materially sensitive to changes in interest rates due to the short duration of these investments.

Foreign Currency Exchange Rate Risk

We are exposed to foreign currency exchange rate risk inherent in conducting business globally in numerous currencies. We are primarily exposed to foreign currency fluctuations related to operating expenses denominated in currencies other than the U.S. dollar, of which the most significant to our operations for the six months ended May 3, 2014, were the Chinese yuan, the euro, the Japanese yen, the Indian rupee, the British pound, the Singapore dollar and the Swiss franc. Because we report in U.S. dollars, 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 and option contracts designated as cash flow hedges to protect against the foreign currency exchange rate risks inherent in our forecasted operating expenses denominated in certain currencies other than the U.S. dollar. We recognize the gains and losses on foreign currency forward contracts in the same period as the remeasurement losses and gains of the related foreign currency denominated exposures.

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

Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures if we believe such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or if the currency is difficult or too expensive to hedge. As of May 3, 2014, we held $60.7 million in gross notional amount of cash flow derivative instruments. The maximum length of time over which we are hedged as of May 3, 2014, is through October 8, 2014.

We have performed a sensitivity analysis as of May 3, 2014, using a modeling technique that measures the change in the fair values arising from a hypothetical 10% adverse movement in the levels of foreign currency exchange rates relative to the U.S. dollar, with all other variables held constant. The analysis covers all of our foreign currency contracts offset by the underlying exposures. The foreign currency exchange rates we used were based on market rates in effect on May 3, 2014. 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 May 3, 2014.

Equity Price Risk

We had no investments in publicly traded equity securities as of May 3, 2014. The aggregate cost of our equity investments in non-publicly traded companies was $7.9 million as of May 3, 2014. 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 May 2, 2014, the last business day of our second fiscal quarter of 2014, the last reported sale price of our common stock on the NASDAQ Global Select Market was $8.86 per share.

Item 4. Controls and Procedures

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

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

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

(b) *Changes in Internal Control over Financial Reporting.* There were no changes in our internal control over financial reporting that occurred during the quarter ended May 3, 2014, 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

From time to time, the Company is subject to various legal proceedings and claims, either asserted or unasserted, which arise in the ordinary course of business, including claims of alleged infringement of patents and/or other intellectual property rights and commercial and employment contract disputes. While the outcome of these matters cannot be predicted with certainty, the Company does not believe that the outcome of any of these matters, individually or in the aggregate, will result in losses that are materially in excess of amounts already recognized.

Item 1A. Risk Factors

Intense competition or consolidation and emergence of new technology options in the networking market could prevent Brocade from increasing or maintaining revenue, profitability, and cash flows with respect to its networking solutions.

The networking market is highly competitive and is in a state of transformation with new competitors entering the market offering products based on emerging technologies such as software networking, virtualization, and infrastructure-as-a-service. While Cisco Systems, Inc. ("Cisco") maintains a dominant position in the IP networking market, networking customers today have more choices in both traditional and emerging networking solutions from new competitors such as VMware, Inc. ("VMware") and Plexxi, Inc. ("Plexxi").

Further, the traditional networking market in recent years has seen increased competition as companies, such as Dell Inc. ("Dell") and Hewlett-Packard Company ("HP"), have strengthened their networking portfolios through acquisitions. These companies have longer operating histories, greater financial, technical, sales, marketing and other resources, more name recognition and larger installed customer bases than Brocade. Their businesses may have better economies of scale and therefore could also adopt more aggressive pricing policies than Brocade.

Underscoring the volatility of the networking industry landscape, International Business Machines Corporation ("IBM") announced in early 2014 the sale of several businesses to Lenovo Group Limited, including its blade networking portfolio, which IBM acquired as part of the deal to purchase Blade Network Technologies in 2010. Additionally, Dell has been working with a start-up company, Cumulus Networks, to bring bare-metal, otherwise known as "whitebox" label, switches to market. In addition, each of Cisco and HP recently announced their intent to offer cloud computing services, which may give customers more options to procure networking as-a-service than by traditional purchasing methods.

As a result, Brocade's competitors could devote more resources to develop, promote and sell their own products, and, therefore, those competitors could respond more quickly to changes in customer or market requirements and adopt more aggressive pricing policies. Other competitors in the traditional IP networking market include Arista Networks, Inc. ("Arista"), which recently filed for an initial public offering, as well as Alcatel-Lucent, Avaya, Inc. ("Avaya"), A10 Networks, Inc. ("A10"), Extreme Networks, Inc., F5 Networks, Inc., Huawei Technologies Co. Ltd., and Juniper Networks, Inc. ("Juniper"). Brocade's failure to successfully compete in the market would harm Brocade's business and financial results.

Brocade's failure to execute on its overall sales strategy or successfully leverage its channel and direct sales capabilities could significantly reduce Brocade's revenues and negatively affect Brocade's financial results.

Brocade offers its IP Networking products through a multipath distribution strategy, including distributors, resellers, Brocade's direct sales force and OEMs that have historically offered Brocade Storage Area Networking ("SAN") products. However, Brocade's efforts to increase sales through this multipath distribution strategy may not generate much, if any, incremental revenue opportunities for Brocade. Several of Brocade's major OEM customers, including Dell, IBM, HP, and Oracle Corporation, have acquired companies that offer IP networking products that are competitive with Brocade's offerings. A loss of, or significant reduction in, revenue through one of Brocade's paths to market would negatively impact Brocade's financial results.

Brocade's failure to successfully develop its channel partner relationships or the failure of these partners to sell Brocade's products could reduce Brocade's growth prospects significantly, especially for its IP networking portfolio. In addition, Brocade's ability to respond to the needs of its distribution and reseller partners in the future may also depend on third parties producing complementary products and applications for Brocade's products to enable these partners to be competitive in the market. There can be no assurance that Brocade will be successful in achieving its expanded go-to-market objectives, which include effectively maintaining or expanding sales through its distribution channels and managing distribution relationships successfully. If Brocade fails to respond successfully to the needs of these distribution and reseller partners and their customers, its business and financial results could be adversely affected.

Additionally, Brocade announced in fiscal year 2013 that it is making certain changes in its strategic direction by focusing on key technology segments, such as its SAN fabrics, Ethernet fabrics and software networking products, for the data center. This change in focus has resulted in a rebalancing of resources away from certain non-key areas of Brocade's business, including changes to direct and channel sales and divestitures of certain assets, and has impacted Brocade's ability to generate revenue from certain products, markets, geographies and customers. As a part of this rebalancing, Brocade anticipates an impact of $80 million to $100 million in lower revenue on an annualized basis compared with fiscal year 2013, as a result of actions taken through the second quarter of fiscal year 2014, such as the strategic shift to reduce investment in our hardware-based ADX products and to increase investment in our software-based ADX products for the Layer 4-7 market, Brocade's divestiture of its network adapter business and the change in Brocade's wireless business strategy. There can be no assurance that this new strategic direction will succeed, or that the return on Brocade's investments will develop in the manner and on the timeline expected. Failure to execute on Brocade's strategy could adversely affect Brocade's revenues and financial results. Also, this transition may result in uncertainty by employees, customers and partners that could adversely affect Brocade's business and revenues.

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

There is ongoing uncertainty and from time to time slowdown in the domestic and global economies. Such uncertainty or slowdown has resulted in, and may continue to result in, lower growth or a decline in the networking industry as a whole and reduced demand for information technology ("IT"), including high-performance data networking solutions. Historically, IT spending has declined as general economic and market conditions worsen and has also been impacted by reduced U.S. federal spending and the budget-related government shutdown. Brocade is particularly susceptible to reductions in IT spending because the purchase of Brocade's products is often discretionary and may involve a significant commitment of capital and other resources. The loss or delay of orders from any of Brocade's more significant customers, such as the U.S. government or individual branches or agencies within the U.S. government (including the Department of Defense or certain intelligence agencies where Brocade's revenue is concentrated), or customers within the service provider, financial services, education and health sectors, could also cause Brocade's revenue and profitability to suffer. For example, Brocade's revenue and operating results could be negatively impacted if the U.S. federal government experiences delays in procurement due to longer decision-making timeframes and/or a shift in IT procurement priorities. Economic uncertainty has caused—and may cause further—reductions in Brocade's revenue, profitability and cash flows, increased price competition, increased operating costs and longer fulfillment cycles and may exacerbate many other risks noted elsewhere in this Form 10-Q, which could adversely affect Brocade's business, results of operations and financial condition.

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

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

Additionally, most of Brocade's manufacturing overhead and expenses are fixed in the short term or incurred in advance of receipt of corresponding revenue. As a result, Brocade's gross margins may be negatively affected by fluctuations in manufacturing volumes, component costs, foreign currency exchange rates, the mix of product configurations sold, the mix of distribution channels through which its products are sold, or if product or related warranty costs associated with Brocade's products are greater than previously experienced.

A limited number of major OEM partners comprise a significant portion of Brocade's revenues; the loss of revenue from, or decreased inventory levels held by, any of these major OEM partners could significantly reduce Brocade's revenues and adversely affect Brocade's financial results.

Brocade's SAN business depends on recurring purchases from a limited number of large OEM partners for a substantial portion of its revenues. As a result, revenues from these large OEM partners have a significant influence on Brocade's quarterly and annual financial results. For fiscal years 2013, 2012, and 2011, the same three customers each represented 10% or more of Brocade's total net revenues, for a combined total of 46%, 47%, and 43% of total net revenues, respectively. Brocade's agreements with its OEM partners are typically cancellable, nonexclusive, and have no minimum or specific timing requirements for purchases. Brocade's OEM partners could also elect to eliminate, reduce, or rebalance the amount they purchase from Brocade, 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 or divest certain lines of business, such as IBM's previously announced sale of certain lines of business to Lenovo, 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, a decrease in the level of sales to any one significant OEM partner, change in OEM partner go-to-market strategy or unsuccessful 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 future revenue growth depends on its ability to introduce new products and support on a timely basis and achieve market acceptance of these new products and support.

Developing new product, including software networking, and support offerings requires significant up-front investments that may not result in revenues for an extended period of time, if at all. Brocade must achieve market acceptance of its new product and support offerings on a timely basis in order to realize the benefits of Brocade's investments. However, the market for networking solutions, driven in part by the growth and evolution of the Internet and adoption of new technologies such as software-defined networking ("SDN") and Network Functions Virtualization ("NFV"), 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, reliable and cost-effective products, product enhancements, and services on a timely basis and by keeping pace with technological developments and emerging industry standards.

Other factors that may affect Brocade's successful introduction of new product and support offerings include, but are not limited to, Brocade's ability to:

- Properly determine the market for new products and support, including features, cost effectiveness, and scalability, which can be particularly challenging for initial product offerings in new markets;
- Differentiate Brocade's new products and support from its competitors' technology and product offerings;
- Address the complexities of interoperability of Brocade's products with its installed base, OEM partners' server and storage products, and its competitors' products; and
- Determine which route(s) to market will be effective.

Failure to introduce competitive products and solutions may harm Brocade's business.

If Brocade is not able to successfully transition from older products and support to new and enhanced products and support 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, such as certain SAN products, to minimize disruption in customers' ordering patterns, avoid excessive levels of older product inventories and provide sufficient supplies of new products to meet customer demands. The introduction of new or enhanced products may shorten the life cycle of Brocade's existing products, or replace the sales of some of Brocade's current products, thereby offsetting the benefit of a successful product introduction. 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 or enhanced products. In addition, any customer uncertainty regarding

the timeline for rolling out new products or Brocade's plans for future support of existing products may cause customers to delay purchase decisions or purchase competing products, which would adversely affect Brocade's business and results of operations.

If Brocade loses key talent or is unable to hire additional qualified talent, its business may be negatively impacted.

Brocade's success depends, to a significant degree, upon the continued contributions of its employees, including executive officers, engineering, sales and other talent, many of whom would be difficult to replace. Departures, appointments and changes in roles and responsibilities of officers or other key members of management may disrupt Brocade's business and adversely affect Brocade's operating results.

Brocade believes its future success depends, in large part, upon Brocade's ability to attract highly skilled talent and on the ability of its management to operate effectively, in geographically diverse locations. There is limited qualified talent in each of Brocade's markets, and competition for such talent is very aggressive. Other companies in Brocade's industry and geographic regions are recruiting from the same limited talent pool, which creates further compression on the availability of qualified talent. In particular, Brocade operates in various locations with highly competitive labor markets, including Bangalore, India, and San Jose, California. Brocade may experience difficulty in hiring key management and qualified talent with skills in nearly all areas of Brocade's business and operations.

Additionally, in fiscal year 2013, Brocade announced certain changes in strategic direction focusing on key technology segments. As part of this change in focus, Brocade reduced costs of revenue and other operating expenses by $100 million on an annualized basis when comparing the fourth quarter of fiscal year 2013 to the first quarter of fiscal year 2013. Executing on this new strategic direction as well as the ongoing efficiency initiatives across the Company could adversely affect Brocade's ability to retain and hire key personnel and may result in reduced productivity by its employees.

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/or negatively affect Brocade's ability to sell its products or services.

Brocade has a substantial amount of acquired intangible assets, goodwill, and deferred tax assets on its balance sheet, and if Brocade is required to record impairment charges for these assets, such impairment could adversely affect Brocade's financial results.

Brocade has a substantial amount of acquired intangible assets, goodwill, and deferred tax assets on its balance sheet related to Brocade's prior acquisitions. Brocade's determination of fair value of long-lived assets relies on management's assumptions of future revenues, operating costs, and other relevant factors. If management's estimates of future operating results change or if there are changes to other assumptions, such as the discount rate applied to future cash flows, then 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. For example, based on the decrease in the hardware-based ADX revenue forecasts, Brocade recognized an $83.4 million goodwill impairment charge during the second quarter of fiscal year 2014. For a sensitivity analysis that quantifies the impact of key assumptions used by Brocade on certain reporting units' fair value estimates, see Critical Accounting Estimates in Part I, Item 2 of this Form 10-Q. If future impairment tests should result in a charge to earnings, Brocade's financial results would be further adversely affected.

Brocade has determined that, more likely than not, it will realize its deferred tax assets based on positive evidence of its historical operations and projections of future income, except for the deferred tax assets related to California and capital loss carryforwards for which a valuation allowance has been applied. In the event that 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, resulting in a charge to earnings and adversely affecting Brocade's financial results.

Failure to accurately forecast demand for Brocade's products or failure to successfully manage the production of Brocade's products could increase Brocade's product cost or adversely affect Brocade's margins and profitability.

Brocade provides product forecasts to its contract manufacturers ("CMs") 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. If Brocade or these third parties 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.

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. If these forecasts are inaccurate, Brocade may be unable to obtain adequate manufacturing capacity from its CMs to meet customers' delivery requirements or Brocade may accumulate excess inventories or carry the cost of excess manufacturing capacity. If excess inventories accumulate, Brocade's gross margins may be negatively impacted by write-downs for excess and/or obsolete inventory. In addition, Brocade will experience higher fixed costs as it expands its CMs' capabilities for forecasted demand, which could negatively affect Brocade's margins if demand decreases suddenly and Brocade is unable to rapidly reduce these fixed costs.

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

IT spending is subject to cyclical and uneven fluctuations, which could cause Brocade's financial results to fluctuate unevenly and unpredictably. For example, the U.S. federal budget for government IT spending can be highly seasonal and subject to delay, reductions and uncertainty from time to time due to changes in the political and legislative environment, such as the U.S. federal government shutdown during Brocade's fourth quarter of fiscal year 2013. It can be difficult to predict the degree to which end-customer demand and 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 or enhanced products. While Brocade's first and fourth fiscal quarters have typically been seasonally stronger quarters than its second and third fiscal quarters, particularly for SAN products, future buying patterns may differ from historical seasonality. In addition, Brocade's third and fourth quarters are typically seasonally stronger than its first and second quarters for IP Networking buying patterns.

Accordingly, Brocade's quarterly and annual revenues, operating results, financial position and other financial and operating metrics may vary significantly in the future. The results of any prior periods should not be relied upon as an indication of future performance. Brocade cannot provide assurance that, in future quarters, Brocade's revenues or operating results will not be below Brocade's projections or the expectations of stock market analysts or investors, which could adversely affect Brocade's financial position and cause Brocade's stock price to decline.

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

Brocade has in the past acquired—or made strategic investments in—other companies, products, or technologies. Most recently, Brocade acquired Vyatta in fiscal year 2013, and Brocade expects to make additional acquisitions and strategic investments in the future. Brocade may not realize the anticipated benefits of any of its acquisitions or strategic investments, which involve numerous risks, including, but not limited to, the following:

- Difficulties in successfully integrating the acquired businesses and realizing any expected synergies;
- Inability to effectively coordinate sales and marketing efforts to communicate the capabilities of the combined company;
- 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, including 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;
- 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 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 business 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 potential limitations on Brocade’s operations in order to satisfy financial and other negative operating covenants;
- Additional costs, such as increased costs of manufacturing and service, 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, severance payments, reorganization or closure of facilities, taxes, advisor and professional fees, and termination of contracts that provide redundant or conflicting services;
- Incurrence of acquisition- and integration-related costs, or amortization costs for acquired intangible assets, that could negatively impact Brocade’s operating results and financial condition; and
- Potential future write-down of goodwill, similar to the $83.4 million goodwill impairment charge during the second quarter of fiscal year 2014, as well as a write-down of acquired intangible assets and/or deferred tax assets, which could significantly impact Brocade’s operating results.

Brocade may also divest certain businesses from time to time. For example, Brocade sold its network adapter business to QLogic during the first quarter of fiscal year 2014, as part of Brocade’s previously stated business strategy. Such divestitures involve risks, such as difficulty separating out portions of or entire businesses, distracting employees, potential loss of revenue and negatively impacting margins, and potentially disrupting customer relationships. Brocade may also incur significant costs associated with exit or disposal activities, related impairment charges or both, if Brocade exits or divests a business or product line.

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

If product orders are received late in a fiscal quarter, Brocade may be unable to recognize revenue for these orders in the same quarter, which could adversely affect quarterly revenues.

Brocade’s IP Networking business typically experiences significantly higher levels of customer orders toward the end of a fiscal period. Customer orders received toward the end of the period may not ship within the period due to Brocade’s manufacturing lead times. The inability to ship within the quarter in which the customer orders are received could negatively impact Brocade’s quarterly revenues.

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

Brocade has significant international operations, and a significant portion of Brocade’s sales occur in international jurisdictions. In addition, Brocade’s CMs have significant operations in China. Brocade’s international sales of its IP networking products have primarily depended on a variety of its distributors and resellers. Maintenance or expansion of international sales or international operations involves inherent risks that Brocade may not be able to control, including, but not limited to, the following:

- Exposure to economic instability or fluctuations in international markets that could cause reductions in customer and public sector IT spending;
- Exposure to inflationary risks in China and the continuing sovereign debt risk and economic instability in certain regions of Europe, including Russia;
- 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 and sales teams in geographically diverse locations, including teams divided between the United States and India;
- Significant wage inflation in certain economies, such as China and India;

- Increased exposure to foreign currency exchange rate fluctuations, including the appreciation of foreign currencies such as the Chinese yuan or the 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, time 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 environmental, data privacy, 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;
- Increased complexity of logistics and distribution arrangements; and
- Increased complexity of accounting rules and financial reporting requirements.

Any of the preceding could negatively impact Brocade's business, revenues and profitability.

Brocade is subject to—and will continue to be subject to other—intellectual property infringement claims and litigation that are costly to defend and/or settle, and that could result in significant damages and other costs to Brocade and limit Brocade's ability to use certain technologies in the future.

Brocade competes in markets that are frequently subject to claims and related litigation regarding patent and other intellectual property rights. Third parties have from time to time asserted patent, copyright, trade secret, and/or other intellectual property-related claims against Brocade and/or employees of Brocade. These claims may be, and have been in the past, made in respect of Brocade's products and services, subcomponents of its products, methods performed by its products or a combination of products, including third-party products, methods used in its operations, or uses of its products by its customers, or may concern Brocade's hiring of a former employee of the third-party claimant. Brocade and companies acquired by Brocade, such as Foundry Networks, LLC ("Foundry"), have in the past incurred, and will likely incur in the future, substantial expenses to defend against such third-party claims. Brocade's suppliers and customers also may be subject to third-party intellectual property claims, which could negatively impact their ability to supply Brocade or their willingness to purchase from Brocade, respectively. In addition, Brocade may be subject to claims, defense and indemnification obligations with respect to third-party intellectual property rights pursuant to Brocade's agreements with suppliers, OEM and channel partners or customers. If Brocade refuses to indemnify or defend such claims, for instance, even in situations where the allegations are meritless, then suppliers, partners, or customers may refuse to do business with Brocade. Parties that assert such intellectual property claims may be unreasonable in their demands, or may simply refuse to settle, which could lead to prolonged periods of litigation expenses, additional burdens on employees or other resources, distraction from Brocade's business initiatives and operations, component supply stoppages, expensive settlement payments, and lost sales. Further, there is little or no information publicly available concerning market or fair values for license fees, which can lead to overpayment of license or settlement fees. 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 supply chain is dependent on sole-source and limited-source suppliers and a limited number of major CMs, either one or both of which may significantly impact results of operations.

Although Brocade uses standard parts and components for its products where possible, Brocade's CMs 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"). 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 switch fabric components. 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's suppliers experience 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 retrofit 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, 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. Any manufacturing disruption by these sole-source or limited-source suppliers could severely impair Brocade's ability to fulfill orders and may significantly impact results of operations.

In addition, the loss of any of Brocade's major CMs, or portions of their capacity, could significantly impact Brocade's ability to produce its products for an indefinite period of time. Qualifying a new CM and commencing volume production is typically a lengthy and expensive process. If Brocade changes any of its CMs or if any of its CMs 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.

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

Brocade's intellectual property rights may be infringed or misappropriated by others, including by competitors, partners, former employees, foreign governments, or other third parties. 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 intellectual property rights. Intellectual property litigation is expensive and unpredictable. There can be no assurance that Brocade will prevail in such assertions or enforcement efforts, either on the merits, or with respect to particular relief sought, such as damages or an injunction, and no assurance that any awarded damages ultimately will be paid to Brocade. Further, the opposing party may attempt to prove that the asserted intellectual property rights are invalid or unenforceable, and, if successful, may seek recompense for its attorney fees and costs or countersue Brocade as part of its defense. Finally, there can be no assurance that any attempt by Brocade to enforce its intellectual property rights, even if successful in court, will improve Brocade's sales or diminish the defendant's sales or stop the defendant's allegedly unfair competition.

Brocade relies on a combination of patent, copyright, trademark, and trade secret laws, and measures such as physical and operational security and contractual restrictions, to protect its intellectual property rights in its proprietary technologies, but none of these methods of protection may be entirely appropriate or adequate to address the particular risk, which could result in a loss of intellectual property rights. Loss or violation of Brocade's intellectual property rights could adversely affect Brocade's business and operating results, result in a loss of revenue and increase expenses.

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

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

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

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 and/or undetected errors. Some types of errors may not be detected until the product is installed in a user environment. In addition, Brocade’s products are often combined with other products, including software from other vendors, and these products often need to interoperate. For existing IT products, each of which have different specifications, utilize multiple protocol standards and may be procured from other vendors, 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 resulting in lower profitability from increased costs and possibly decreased revenue. Moreover, the occurrence of hardware and software errors, whether caused by Brocade’s or another vendor’s products, could delay market acceptance of Brocade’s new or enhanced products.

Business interruptions could adversely affect Brocade’s business operations.

Brocade’s operations and the operations of its suppliers, CMs and customers are vulnerable to interruptions caused by fires, earthquakes, tsunamis, nuclear reactor leaks, hurricanes, power losses, telecommunications failures, and other events beyond Brocade’s control. For example, a substantial portion of Brocade’s facilities, including its corporate headquarters, are located near major earthquake faults. Brocade does not have multiple-site capacity for all of its services in the event of a business disruption. In the event of a major earthquake, Brocade could experience business interruption resulting from destruction of facilities or other infrastructure and from loss of life. Brocade carries a limited amount of earthquake insurance, which may not be sufficient to cover earthquake-related losses, and has not set aside funds or reserves to cover other potential earthquake-related losses. Additionally, major public health issues, such as an outbreak of a pandemic or epidemic, may interrupt business operations of Brocade or its suppliers in those geographic regions affected by that particular health issue. In addition, one of Brocade’s CMs has a major facility located in an area that is subject to hurricanes, and Brocade’s suppliers could face other natural disasters, such as floods, earthquakes, extreme weather, and fires. In the event that a material business interruption occurs that affects Brocade, its suppliers, CMs or customers, shipments could be delayed and Brocade’s business and financial results could be harmed.

In addition, Brocade may suffer reputational harm and may not carry sufficient insurance to compensate for financial losses that may occur as a result of any of these events. Any such event could have a material adverse effect on Brocade’s business, operating results, and financial condition, and could expose Brocade to significant third-party claims of liability and damages.

Cyberattacks could disrupt Brocade’s operations, negatively impact Brocade’s reputation and erode Brocade’s customers’ trust.

Cyberattacks and other malicious attacks can lead to data breaches, computer break-ins, malware, and viruses and unauthorized tampering with Brocade’s computer systems, intellectual proprietary and confidential information of Brocade, its customers and partners. These attacks could disrupt Brocade’s operations, negatively impact Brocade’s reputation and erode Brocade’s customers’ trust. Despite Brocade’s implementation of cybersecurity measures, including technologies, processes, and practices designed to protect Brocade’s networks, computers, programs and data from attack, damage, or unauthorized access, Brocade may not successfully limit attacks by malicious third parties if they attempt to undermine or disrupt Brocade’s cybersecurity.

Brocade's failure to meet its commitment to return capital to its stockholders could have a material adverse effect on its stock price.

In September 2013, Brocade announced its intent to return at least 60% of its adjusted free cash flow to investors in the form of share repurchases or other alternatives such as dividends. Brocade's ability to return at least 60% of its adjusted free cash flow to investors is limited by, among other things, covenants in its indebtedness and Delaware law. If Brocade is unable to meet its commitment to return capital, Brocade's reputation and its stock price may be materially adversely affected.

Brocade's business is subject to increasingly complex and changing legal and regulatory requirements that could adversely affect Brocade's business and financial results.

Brocade is subject to changing rules and regulations of federal and state governments as well as the stock exchange on which Brocade's common stock is listed. These entities, including the Public Company Accounting Oversight Board, the Financial Accounting Standards Board, the SEC, the Internal Revenue Service (the "IRS"), and the NASDAQ Stock Market LLC ("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 Department of Labor and various Congressional representatives have proposed additional rules and regulations that may go into effect in the near future. 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.

The Dodd-Frank Wall Street Reform and Protection Act (the "Dodd-Frank Act") could also negatively impact Brocade's supply chain or impose additional costs related to that supply chain, as it requires certain public companies to disclose whether certain minerals, commonly known as "conflict minerals," are necessary to the functionality or production of a product manufactured by those companies and if those minerals originated in the Democratic Republic of the Congo or an adjoining country. It may be possible that conflict minerals are a part of the electronics industry supply chain utilized by Brocade and thus it may be possible that conflict minerals are contained in Brocade's products. The implementation of these requirements by government regulators and Brocade's partners and/or customers could adversely affect the sourcing, availability, and pricing of minerals used in the manufacture of certain components used in Brocade's products. In addition, Brocade has incurred and will incur additional costs to comply with the disclosure requirements for conflict minerals, including costs related to determining the source of any of the relevant minerals and metals used in Brocade's products. As a result, Brocade's business and financial results could be adversely affected.

Similarly, any change in tax laws 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. In this regard, the United States, countries in the European Union, and other countries where Brocade operates are actively considering changes to relevant tax, accounting, and other laws, regulations, and interpretations, including fundamental changes to tax laws applicable to multinational corporations. These potential changes could increase Brocade's effective tax rate or result in other costs in the future.

Brocade is subject to periodic audits or other reviews by such governmental agencies. For example, Brocade is still under examination by the IRS for fiscal years 2009 and 2010, and in several state and foreign tax jurisdictions for various years. The IRS has contested Brocade's transfer pricing for the cost sharing and buy-in arrangements with its foreign subsidiaries in the past. The IRS may make similar claims against Brocade's transfer pricing arrangements for fiscal years 2009 and 2010, and in future examinations. Audits by the IRS and other governmental tax agencies are subject to inherent uncertainties and could result in unfavorable outcomes, including potential 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.

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, such as Brocade, to assume responsibility for collecting, treating, recycling, and disposing of products when they have reached the end of their useful life.

For example, in Europe, environmental restrictions apply to products sold in that region, and certain of Brocade's partners require compliance with these or more stringent requirements. In addition, recycling, labeling, and related requirements apply to products Brocade sells in Europe. China has also enacted legislation with similar requirements for Brocade's products or its partners' sale of Brocade's products. 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 noncompliant products into one or more jurisdictions and required to recall and replace any noncompliant products already shipped, which would disrupt its ability to ship products and result in reduced revenue, increased warranty expense, 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 produce compliant products and, accordingly, could disrupt its business or increase Brocade's costs.

Brocade is subject to laws, rules, and regulations in the United States and other countries relating to the collection, use, and security of personal information data. Brocade's possession and use of personal information and data subjects Brocade to legislative and regulatory burdens that may require Brocade to notify customers or employees of a data security breach. Brocade has incurred, and will continue to incur, expenses to comply with mandatory privacy and security standards and protocols imposed by law, regulation, industry standards, or contractual obligations. Such data privacy laws and regulations may negatively impact Brocade's ability to execute transactions and pursue business opportunities. Additionally, Brocade may suffer reputational harm as a result of a data security breach involving customers' or employees' information, all of which could negatively impact our profitability and/or increase expenses. Customers have become increasingly sensitive to government-sponsored surveillance and may believe that U.S. manufacturers' equipment contains "backdoor" code that would allow customer data to be compromised by either governmental bodies or other third parties. As a result, customers may choose not to deploy Brocade networking products, which could negatively impact our revenue.

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. In view of the uncertainties, potential risks, and expenses of litigation, Brocade may, from time to time, settle such disputes, even where Brocade had meritorious claims or defenses, by agreeing to settlement agreements that, depending on their terms, may significantly impact Brocade's financial condition or results.

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

As of May 3, 2014, Brocade had approximately $600 million in principal amount of outstanding indebtedness, including $300 million of unsecured indebtedness under the 2023 Notes and $300 million of secured indebtedness under the 2020 Notes (see Note 8, "Borrowings," of the Notes to Condensed Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q). In addition, Brocade had up to $125 million available for future borrowing under the Senior Secured Credit Facility. The financial and other covenants agreed to by Brocade in connection with such indebtedness have the effect, among other things, of reducing Brocade's flexibility to respond to changing business and economic conditions and increasing borrowing costs should further debt financing be desired, and may adversely affect Brocade's operations and financial results. This indebtedness may also adversely affect Brocade's ability to access sources of capital or incur certain liens, including, without limitation, funding acquisitions, paying dividends, or repurchasing Brocade stock.

In addition, Brocade's failure to comply with these covenants could result in a default under any of 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. 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 discourage, delay, or prevent 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, but are not limited to:

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

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

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

There were no unregistered sales of equity securities during the six months ended May 3, 2014.

Issuer Purchases of Equity Securities

The following table summarizes share repurchase activity for the three months ended May 3, 2014 (in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [(1)]	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program [(1)]
January 26, 2014 to March 1, 2014	3,334	$ 9.31	3,334	$ 828,587
March 2, 2014 to March 29, 2014	546	$ 10.24	546	$ 822,993
March 30, 2014 to May 3, 2014	1,370	$ 9.80	1,370	$ 809,567
Total	5,250	$ 9.53	5,250	

(1) As of May 3, 2014, Brocade's Board of Directors had authorized a stock repurchase program for an aggregate amount of up to $2.0 billion (consisting of an original $100 million authorization on August 18, 2004, plus subsequent authorizations of an additional $200 million on January 16, 2007, $500 million on November 29, 2007, $500 million on May 16, 2012, and $692 million on September 25, 2013), which was used for determining the amounts in these columns. The number of shares purchased and the timing of purchases are based on the level of the Company's cash balances, the trading price of our common stock, general business and market conditions, and other factors, including alternative investment opportunities.

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description of Document
10.1*	Form of Indemnification Agreement to be entered into between Brocade and each of its directors and executive officers
10.2†	Amendment Number 24 dated April 17, 2014, with an effective date of April 23, 2014, to Statement of Work Number 3 of the Goods Agreement between IBM and Brocade
31.1	Rule 13a-14(a)/15d-14(a) Certification by the Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification by the Chief Financial Officer
32.1	Certification by the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
*	Indicates management compensatory plan, contract or arrangement.
†	Confidential treatment requested as to certain portions, which portions were omitted and filed separately with the Securities and Exchange Commission.

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 6, 2014	By:	/s/ Daniel W. Fairfax
			Daniel W. Fairfax Chief Financial Officer and Vice President, Finance

Exhibit 10.1

BROCADE COMMUNICATIONS SYSTEMS, INC.

INDEMNIFICATION AGREEMENT

This Indemnification Agreement (this "***Agreement***") is dated as of [*insert date*], and is between Brocade Communications Systems, Inc., a Delaware corporation (the "***Company***"), and [*insert name of indemnitee*] ("***Indemnitee***").

RECITALS

A. Indemnitee's service to the Company substantially benefits the Company.

B. Individuals are reluctant to serve as directors or officers of corporations or in certain other capacities unless they are provided with adequate protection through insurance or indemnification against the risks of claims and actions against them arising out of such service.

C. Indemnitee does not regard the protection currently provided by applicable law, the Company's governing documents and any insurance as adequate under the present circumstances, and Indemnitee may not be willing to serve as a director or officer without additional protection.

D. In order to induce Indemnitee to continue to provide services to the Company, it is reasonable, prudent and necessary for the Company to contractually obligate itself to indemnify, and to advance expenses on behalf of, Indemnitee as permitted by applicable law.

E. This Agreement is a supplement to and in furtherance of the indemnification provided in the Company's certificate of incorporation and bylaws, and any resolutions adopted pursuant thereto, and this Agreement shall not be deemed a substitute therefor, nor shall this Agreement be deemed to limit, diminish or abrogate any rights of Indemnitee thereunder.

The parties therefore agree as follows:

1. **Definitions.**

(a) A "***Change in Control***" shall be deemed to occur upon the earliest to occur after the date of this Agreement of any of the following events:

(i) *Acquisition of Stock by Third Party.* Any Person (as defined below) is or becomes the Beneficial Owner (as defined below), directly or indirectly, of securities of the Company representing fifteen percent (15%) or more of the combined voting power of the Company's then outstanding securities;

(ii) *Change in Board Composition.* During any period of two consecutive years (not including any period prior to the execution of this Agreement), individuals who at the beginning of such period constitute the Company's board of directors, and any new directors (other than a director designated by a person who has entered into an agreement with the Company to effect a transaction described in Sections 1(a)(i), 1(a)(iii) or 1(a)(iv)) whose election by the board of directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute at least a majority of the members of the Company's board of directors;

(iii) *Corporate Transactions.* The effective date of a merger or consolidation of the Company with any other entity, other than a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 50% of the combined voting

power of the voting securities of the surviving entity outstanding immediately after such merger or consolidation and with the power to elect at least a majority of the board of directors or other governing body of such surviving entity;

(iv) *Liquidation.* The approval by the stockholders of the Company of a complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets; and

(v) *Other Events.* Any other event of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended, whether or not the Company is then subject to such reporting requirement.

For purposes of this Section 1(a), the following terms shall have the following meanings:

(1) "***Person***" shall have the meaning as set forth in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended; *provided, however,* that "***Person***" shall exclude (i) the Company, (ii) any trustee or other fiduciary holding securities under an employee benefit plan of the Company, and (iii) any corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

(2) "***Beneficial Owner***" shall have the meaning given to such term in Rule 13d-3 under the Securities Exchange Act of 1934, as amended; *provided, however,* that "***Beneficial Owner***" shall exclude any Person otherwise becoming a Beneficial Owner by reason of (i) the stockholders of the Company approving a merger of the Company with another entity or (ii) the Company's board of directors approving a sale of securities by the Company to such Person.

(b) "***Corporate Status***" describes the status of a person who is or was a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of the Company or any other Enterprise.

(c) "***DGCL***" means the General Corporation Law of the State of Delaware.

(d) "***Disinterested Director***" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(e) "***Enterprise***" means the Company and any other corporation, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee is or was serving at the request of the Company as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary.

(f) "***Expenses***" include all reasonable attorneys' fees, retainers, court costs, transcript costs, fees and costs of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, being or preparing to be a witness in, or otherwise participating in, a Proceeding. Expenses also include (i) Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation the premium, security for, and other costs relating to any cost bond, supersedeas bond or other appeal bond or their equivalent, and (ii) for purposes of Section 12(d), Expenses incurred by Indemnitee in connection with the interpretation, enforcement or defense of Indemnitee's rights under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company. Expenses, however, shall not include amounts paid in settlement by Indemnitee or the amount of judgments or fines against Indemnitee.

(g) "***Independent Counsel***" means a law firm, or a partner or member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent (i) the Company or Indemnitee in any matter material to either such party (other than as Independent Counsel with respect to matters concerning Indemnitee under this Agreement, or other indemnitees under similar indemnification

agreements), or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "***Independent Counsel***" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement.

(h) "***Proceeding***" means any threatened, pending or completed action, suit, arbitration, mediation, alternate dispute resolution mechanism, investigation, inquiry, administrative hearing or proceeding, whether brought in the right of the Company or otherwise and whether of a civil, criminal, administrative or investigative nature, including any appeal therefrom and including without limitation any such Proceeding pending as of the date of this Agreement, in which Indemnitee was, is or will be involved as a party, a potential party, a non-party witness or otherwise by reason of (i) the fact that Indemnitee is or was a director or officer of the Company, (ii) any action taken by Indemnitee or any action or inaction on Indemnitee's part while acting as a director or officer of the Company, or (iii) the fact that he or she is or was serving at the request of the Company as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of the Company or any other Enterprise, in each case whether or not serving in such capacity at the time any liability or Expense is incurred for which indemnification or advancement of expenses can be provided under this Agreement.

(i) Reference to "***other enterprises***" shall include employee benefit plans; references to "***fines***" shall include any excise taxes assessed on a person with respect to any employee benefit plan; references to "***serving at the request of the Company***" shall include any service as a director, officer, employee or agent of the Company which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner he or she reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "***not opposed to the best interests of the Company***" as referred to in this Agreement.

2. **Indemnity in Third-Party Proceedings.** The Company shall indemnify Indemnitee in accordance with the provisions of this Section 2 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding, other than a Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 2, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

3. **Indemnity in Proceedings by or in the Right of the Company.** The Company shall indemnify Indemnitee in accordance with the provisions of this Section 3 if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding by or in the right of the Company to procure a judgment in its favor. Pursuant to this Section 3, Indemnitee shall be indemnified to the fullest extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Company. No indemnification for Expenses shall be made under this Section 3 in respect of any claim, issue or matter as to which Indemnitee shall have been adjudged by a court of competent jurisdiction to be liable to the Company, unless and only to the extent that the Delaware Court of Chancery or any court in which the Proceeding was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such expenses as the Delaware Court of Chancery or such other court shall deem proper.

4. **Indemnification for Expenses of a Party Who is Wholly or Partly Successful.** To the extent that Indemnitee is a party to or a participant in and is successful (on the merits or otherwise) in defense of any Proceeding or any claim, issue or matter therein, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith. To the extent permitted by applicable law, if Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, in defense of one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify

Indemnitee against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this section, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

5. **Indemnification for Expenses of a Witness.** To the extent that Indemnitee is, by reason of his or her Corporate Status, a witness in any Proceeding to which Indemnitee is not a party, Indemnitee shall be indemnified to the extent permitted by applicable law against all Expenses actually and reasonably incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

6. **Additional Indemnification.**

(a) Notwithstanding any limitation in Sections 2, 3 or 4, the Company shall indemnify Indemnitee to the fullest extent permitted by applicable law if Indemnitee is, or is threatened to be made, a party to or a participant in any Proceeding (including a Proceeding by or in the right of the Company to procure a judgment in its favor) against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee or on his or her behalf in connection with the Proceeding or any claim, issue or matter therein.

(b) For purposes of Section 6(a), the meaning of the phrase "***to the fullest extent permitted by applicable law***" shall include, but not be limited to:

(i) the fullest extent permitted by the provision of the DGCL that authorizes or contemplates additional indemnification by agreement, or the corresponding provision of any amendment to or replacement of the DGCL; and

(ii) the fullest extent authorized or permitted by any amendments to or replacements of the DGCL adopted after the date of this Agreement that increase the extent to which a corporation may indemnify its officers and directors.

7. **Exclusions.** Notwithstanding any provision in this Agreement, the Company shall not be obligated under this Agreement to make any indemnity in connection with any Proceeding (or any part of any Proceeding):

(a) for which payment has actually been made to or on behalf of Indemnitee under any statute, insurance policy, indemnity provision, vote or otherwise, except with respect to any excess beyond the amount paid;

(b) for an accounting or disgorgement of profits pursuant to Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of federal, state or local statutory law or common law, if Indemnitee is held liable therefor (including pursuant to any settlement arrangements);

(c) for any reimbursement of the Company by Indemnitee of any bonus or other incentive-based or equity-based compensation or of any profits realized by Indemnitee from the sale of securities of the Company, as required in each case under the Securities Exchange Act of 1934, as amended (including any such reimbursements that arise from an accounting restatement of the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 (the "***Sarbanes-Oxley Act***"), or the payment to the Company of profits arising from the purchase and sale by Indemnitee of securities in violation of Section 306 of the Sarbanes-Oxley Act), if Indemnitee is held liable therefor (including pursuant to any settlement arrangements);

(d) initiated by Indemnitee, including any Proceeding (or any part of any Proceeding) initiated by Indemnitee against the Company or its directors, officers, employees, agents or other indemnitees, unless (i) the Company's board of directors authorized the Proceeding (or the relevant part of the Proceeding) prior to its initiation, (ii) the Company provides the indemnification, in its sole discretion, pursuant to the powers vested in the Company under applicable law, (iii) otherwise authorized in Section 12(d) or (iv) otherwise required by applicable law; or

(e) if prohibited by applicable law.

8. **Advances of Expenses.** The Company shall advance the Expenses incurred by Indemnitee in connection with any Proceeding, and such advancement shall be made as soon as reasonably practicable, but in any event no later than 90 days, after the receipt by the Company of a written statement or statements requesting such advances from time to time (which shall include invoices received by Indemnitee in connection with such Expenses but, in the case of invoices in connection with legal services, any references to legal work performed or to expenditure made that would cause Indemnitee to waive any privilege accorded by applicable law shall not be included with the invoice). Advances shall be unsecured and interest free and made without regard to Indemnitee's ability to repay such advances. Indemnitee hereby undertakes to repay any advance to the extent that it is ultimately determined that Indemnitee is not entitled to be indemnified by the Company. This Section 8 shall not apply to the extent advancement is prohibited by law and shall not apply to any Proceeding for which indemnity is not permitted under this Agreement, but shall apply to any Proceeding referenced in Section 7(b) or 7(c) prior to a determination that Indemnitee is not entitled to be indemnified by the Company.

9. **Procedures for Notification and Defense of Claim.**

(a) Indemnitee shall notify the Company in writing of any matter with respect to which Indemnitee intends to seek indemnification or advancement of Expenses as soon as reasonably practicable following the receipt by Indemnitee of notice thereof. The written notification to the Company shall include, in reasonable detail, a description of the nature of the Proceeding and the facts underlying the Proceeding. The failure by Indemnitee to notify the Company will not relieve the Company from any liability which it may have to Indemnitee hereunder or otherwise than under this Agreement, and any delay in so notifying the Company shall not constitute a waiver by Indemnitee of any rights, except to the extent that such failure or delay materially prejudices the Company.

(b) If, at the time of the receipt of a notice of a Proceeding pursuant to the terms hereof, the Company has directors' and officers' liability insurance in effect, the Company shall give prompt notice of the commencement of the Proceeding to the insurers in accordance with the procedures set forth in the applicable policies. The Company shall thereafter take all commercially-reasonable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

(c) In the event the Company may be obligated to make any indemnity in connection with a Proceeding, the Company shall be entitled to assume the defense of such Proceeding with counsel approved by Indemnitee, which approval shall not be unreasonably withheld, upon the delivery to Indemnitee of written notice of its election to do so. After delivery of such notice, approval of such counsel by Indemnitee and the retention of such counsel by the Company, the Company will not be liable to Indemnitee for any fees or expenses of counsel subsequently incurred by Indemnitee with respect to the same Proceeding. Notwithstanding the Company's assumption of the defense of any such Proceeding, the Company shall be obligated to pay the fees and expenses of Indemnitee's counsel to the extent (i) the employment of counsel by Indemnitee is authorized by the Company, (ii) counsel for the Company or Indemnitee shall have reasonably concluded that there is a conflict of interest between the Company and Indemnitee in the conduct of any such defense such that Indemnitee needs to be separately represented, (iii) the Company is not financially or legally able to perform its indemnification obligations or (iv) the Company shall not have retained, or shall not continue to retain, such counsel to defend such Proceeding. The Company shall have the right to conduct such defense as it sees fit in its sole discretion. Regardless of any provision in this Agreement, Indemnitee shall have the right to employ counsel in any Proceeding at Indemnitee's personal expense. The Company shall not be entitled, without the consent of Indemnitee, to assume the defense of any claim brought by or in the right of the Company.

(d) Indemnitee shall give the Company such information and cooperation in connection with the Proceeding as may be reasonably appropriate.

(e) The Company shall not be liable to indemnify Indemnitee for any settlement of any Proceeding (or any part thereof) without the Company's prior written consent, which shall not be unreasonably withheld.

(f) The Company shall have the right to settle any Proceeding (or any part thereof) without the consent of Indemnitee, provided, however, that the Company shall not settle any action or claim in a manner that

would impose any penalty or admission of guilt or liability on Indemnitee without Indemnitee's written consent, which consent Indemnitee will not unreasonably withhold.

10. **Procedures upon Application for Indemnification.**

(a) To obtain indemnification, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and as is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification following the final disposition of the Proceeding.

(b) Upon written request by Indemnitee for indemnification pursuant to Section 10(a), a determination with respect to Indemnitee's entitlement thereto shall be made in the specific case (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Company's board of directors, a copy of which shall be delivered to Indemnitee or (ii) if a Change in Control shall not have occurred, (A) by a majority vote of the Disinterested Directors, even though less than a quorum of the Company's board of directors, (B) by a committee of Disinterested Directors designated by a majority vote of the Disinterested Directors, even though less than a quorum of the Company's board of directors, (C) if there are no such Disinterested Directors or, if such Disinterested Directors so direct, by Independent Counsel in a written opinion to the Company's board of directors, a copy of which shall be delivered to Indemnitee, or (D) if so directed by the Company's board of directors, by the stockholders of the Company. If it is determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within thirty days after such determination. Indemnitee shall cooperate with the person, persons or entity making the determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information that is not privileged or otherwise protected from disclosure and that is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) reasonably incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Company, to the extent permitted by applicable law.

(c) In the event the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 10(b), the Independent Counsel shall be selected as provided in this Section 10(c). If a Change in Control shall not have occurred, the Independent Counsel shall be selected by the Company's board of directors, and the Company shall give written notice to Indemnitee advising him or her of the identity of the Independent Counsel so selected. If a Change in Control shall have occurred, the Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Company's board of directors, in which event the preceding sentence shall apply), and Indemnitee shall give written notice to the Company advising it of the identity of the Independent Counsel so selected. In either event, Indemnitee or the Company, as the case may be, may, within ten days after such written notice of selection shall have been given, deliver to the Company or to Indemnitee, as the case may be, a written objection to such selection; *provided*, *however*, that such objection may be asserted only on the ground that the Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 1 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. Absent a proper and timely objection, the person so selected shall act as Independent Counsel. If such written objection is so made and substantiated, the Independent Counsel so selected may not serve as Independent Counsel unless and until such objection is withdrawn or a court has determined that such objection is without merit. If, within 20 days after the later of (i) submission by Indemnitee of a written request for indemnification pursuant to Section 10(a) hereof and (ii) the final disposition of the Proceeding, the parties have not agreed upon an Independent Counsel, either the Company or Indemnitee may petition a court of competent jurisdiction for resolution of any objection which shall have been made by the Company or Indemnitee to the other's selection of Independent Counsel and for the appointment as Independent Counsel of a person selected by the court or by such other person as the court shall designate, and the person with respect to whom all objections are so resolved or the person so appointed shall act as Independent Counsel under Section 10(b) hereof. Upon the due commencement of any judicial proceeding or arbitration pursuant to Section 12(a) of this Agreement, the Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

(d) The Company agrees to pay the reasonable fees and expenses of any Independent Counsel and to fully indemnify such counsel against any and all Expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto.

11. **Presumptions and Effect of Certain Proceedings.**

(a) In making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall, to the fullest extent not prohibited by law, presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a) of this Agreement, and the Company shall, to the fullest extent not prohibited by law, have the burden of proof to overcome that presumption in connection with the making by such person, persons or entity of any determination contrary to that presumption.

(b) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of *nolo contendere* or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself create a presumption that Indemnitee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that his or her conduct was unlawful.

(c) For purposes of any determination of good faith, Indemnitee shall be deemed to have acted in good faith to the extent Indemnitee relied in good faith on (i) the records or books of account of the Enterprise, including financial statements, (ii) information supplied to Indemnitee by the officers of the Enterprise in the course of their duties, (iii) the advice of legal counsel for the Enterprise or its board of directors or counsel selected by any committee of the board of directors or (iv) information or records given or reports made to the Enterprise by an independent certified public accountant, an appraiser, investment banker or other expert selected with reasonable care by the Enterprise or its board of directors or any committee of the board of directors. The provisions of this Section 11(c) shall not be deemed to be exclusive or to limit in any way the other circumstances in which Indemnitee may be deemed to have met the applicable standard of conduct set forth in this Agreement.

(d) Neither the knowledge, actions nor failure to act of any other director, officer, agent or employee of the Enterprise shall be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

12. **Remedies of Indemnitee.**

(a) Subject to Section 12(e), in the event that (i) a determination is made pursuant to Section 10 of this Agreement that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 8 or 12(d) of this Agreement, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 10 of this Agreement within 90 days after the later of the receipt by the Company of the request for indemnification or the final disposition of the Proceeding, (iv) payment of indemnification pursuant to this Agreement is not made (A) within 30 days after a determination has been made that Indemnitee is entitled to indemnification or (B) with respect to indemnification pursuant to Sections 4, 5 and 12(d) of this Agreement, within 30 days after receipt by the Company of a written request therefor, Indemnitee shall be entitled to an adjudication by a court of competent jurisdiction of his or her entitlement to such indemnification or advancement of Expenses. Alternatively, Indemnitee, at his or her option, may seek an award in arbitration with respect to his or her entitlement to such indemnification or advancement of Expenses, to be conducted by a single arbitrator pursuant to the Commercial Arbitration Rules of the American Arbitration Association. Indemnitee shall commence such proceeding seeking an adjudication or an award in arbitration within 180 days following the date on which Indemnitee first has the right to commence such proceeding pursuant to this Section 12(a); *provided, however,* that the foregoing clause shall not apply in respect of a proceeding brought by Indemnitee to enforce his or her rights under Section 4 of this Agreement. The Company shall not oppose Indemnitee's right to seek any such adjudication or award in arbitration in accordance with this Agreement.

(b) Neither (i) the failure of the Company, its board of directors, any committee or subgroup of the board of directors, Independent Counsel or stockholders to have made a determination that indemnification of Indemnitee is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor (ii) an actual determination by the Company, its board of directors, any committee or subgroup of the board of directors, Independent Counsel or stockholders that Indemnitee has not met the applicable standard of conduct, shall create a presumption that Indemnitee has or has not met the applicable standard of conduct. In the event that a determination shall have been made pursuant to Section 10 of this Agreement that Indemnitee is not entitled to indemnification, any judicial proceeding or arbitration commenced pursuant to this Section 12 shall be conducted in all respects as a *de novo* trial or arbitration, on the merits, and Indemnitee shall not be prejudiced by reason of that adverse determination. In any judicial proceeding or arbitration commenced pursuant to this Section 12, the Company shall, to the fullest extent not prohibited by law, have the burden of proving Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) To the fullest extent not prohibited by law, the Company shall be precluded from asserting in any judicial proceeding or arbitration commenced pursuant to this Section 12 that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Company is bound by all the provisions of this Agreement. If a determination shall have been made pursuant to Section 10 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding or arbitration commenced pursuant to this Section 12, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statements not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) To the extent not prohibited by law, the Company shall indemnify Indemnitee against all Expenses that are incurred by Indemnitee in connection with any action for indemnification or advancement of Expenses from the Company under this Agreement or under any directors' and officers' liability insurance policies maintained by the Company to the extent Indemnitee is successful in such action, and, if requested by Indemnitee, shall (as soon as reasonably practicable, but in any event no later than 90 days, after receipt by the Company of a written request therefor) advance such Expenses to Indemnitee, subject to the provisions of Section 8.

(e) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification shall be required to be made prior to the final disposition of the underlying Proceeding.

13. **Contribution.** To the fullest extent permissible under applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee, the Company, in lieu of indemnifying Indemnitee, shall contribute to the amounts incurred by Indemnitee, whether for Expenses, judgments, fines or amounts paid or to be paid in settlement, in connection with any claim relating to an indemnifiable event under this Agreement, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Company and Indemnitee as a result of the events and transactions giving rise to such Proceeding; and (ii) the relative fault of Indemnitee and the Company (and its other directors, officers, employees and agents) in connection with such events and transactions.

14. **Non-exclusivity.** The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Company's certificate of incorporation or bylaws, any agreement, a vote of stockholders or a resolution of directors, or otherwise. To the extent that a change in Delaware law, whether by statute or judicial decision, permits greater indemnification or advancement of Expenses than would be afforded currently under the Company's certificate of incorporation and bylaws and this Agreement, it is the intent of the parties hereto that Indemnitee shall enjoy by this Agreement the greater benefits so afforded by such change, subject to the restrictions expressly set forth herein or therein. Except as expressly set forth herein, no right or remedy herein conferred is intended to be exclusive of any other right or remedy, and every other right and remedy shall be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. Except as expressly set forth herein, the assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other right or remedy.

15. **No Duplication of Payments.** The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder (or for which advancement is provided hereunder) if and to the extent that Indemnitee has otherwise actually received payment for such amounts under any insurance policy, contract, agreement or otherwise.

16. **Insurance.** To the extent that the Company maintains an insurance policy or policies providing liability insurance for directors, trustees, general partners, managing members, officers, employees, agents or fiduciaries of the Company or any other Enterprise, Indemnitee shall be covered by such policy or policies to the same extent as the most favorably-insured persons under such policy or policies in a comparable position.

17. **Subrogation.** In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

18. **Services to the Company.** Indemnitee agrees to serve as a director or officer of the Company or, at the request of the Company, as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of another Enterprise, for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders his or her resignation or is removed from such position. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law), in which event the Company shall have no obligation under this Agreement to continue Indemnitee in such position. This Agreement shall not be deemed an employment contract between the Company (or any of its subsidiaries or any Enterprise) and Indemnitee. Indemnitee specifically acknowledges that any employment with the Company (or any of its subsidiaries or any Enterprise) is at will, and Indemnitee may be discharged at any time for any reason, with or without cause, with or without notice, except as may be otherwise expressly provided in any executed, written employment contract between Indemnitee and the Company (or any of its subsidiaries or any Enterprise), any existing formal severance policies adopted by the Company's board of directors or, with respect to service as a director or officer of the Company, the Company's certificate of incorporation or bylaws or the DGCL. No such document shall be subject to any oral modification thereof.

19. **Duration.** This Agreement shall continue until and terminate upon the later of (a) ten years after the date that Indemnitee shall have ceased to serve as a director or officer of the Company or as a director, trustee, general partner, managing member, officer, employee, agent or fiduciary of any other Enterprise, as applicable; or (b) one year after the final termination of any Proceeding, including any appeal, then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 12 of this Agreement relating thereto.

20. **Successors.** This Agreement shall inure to the benefit of Indemnitee and Indemnitee's heirs, executors and administrators. The Company shall require and cause any successor (whether direct or indirect by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Company, by written agreement, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

21. **Severability.** Nothing in this Agreement is intended to require or shall be construed as requiring the Company to do or fail to do any act in violation of applicable law. The Company's inability, pursuant to court order or other applicable law, to perform its obligations under this Agreement shall not constitute a breach of this Agreement. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby and shall remain enforceable to the fullest extent permitted by law; (ii) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (iii) to the fullest extent possible, the provisions of this Agreement (including, without limitation,

each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

22. **Enforcement.** The Company expressly confirms and agrees that it has entered into this Agreement and assumed the obligations imposed on it hereby in order to induce Indemnitee to serve as a director or officer of the Company, and the Company acknowledges that Indemnitee is relying upon this Agreement in serving as a director or officer of the Company.

23. **Entire Agreement.** This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral, written and implied, between the parties hereto with respect to the subject matter hereof; *provided*, *however*, that this Agreement is a supplement to and in furtherance of the Company's certificate of incorporation and bylaws and applicable law.

24. **Modification and Waiver.** No supplement, modification or amendment to this Agreement shall be binding unless executed in writing by the parties hereto. No amendment, alteration or repeal of this Agreement shall adversely affect any right of Indemnitee under this Agreement in respect of any action taken or omitted by such Indemnitee in his or her Corporate Status prior to such amendment, alteration or repeal. No waiver of any of the provisions of this Agreement shall constitute or be deemed a waiver of any other provision of this Agreement nor shall any waiver constitute a continuing waiver.

25. **Notices.** All notices and other communications required or permitted hereunder shall be in writing and shall be mailed by registered or certified mail, postage prepaid, sent by facsimile or electronic mail or otherwise delivered by hand, messenger or courier service addressed:

(a) if to Indemnitee, to Indemnitee's address, facsimile number or electronic mail address as shown on the signature page of this Agreement or in the Company's records, as may be updated in accordance with the provisions hereof; or

(b) if to the Company, to the attention of the Chief Executive Officer or Chief Financial Officer of the Company at 130 Holger Way, San Jose, California, 95134-1376, or at such other current address as the Company shall have furnished to Indemnitee, with a copy (which shall not constitute notice) to Katharine A. Martin, Wilson Sonsini Goodrich & Rosati, P.C., 650 Page Mill Road, Palo Alto, California 94304.

Each such notice or other communication shall for all purposes of this Agreement be treated as effective or having been given (i) if delivered by hand, messenger or courier service, when delivered (or if sent *via* a nationally-recognized overnight courier service, freight prepaid, specifying next-business-day delivery, one business day after deposit with the courier), or (ii) if sent *via* mail, at the earlier of its receipt or five days after the same has been deposited in a regularly-maintained receptacle for the deposit of the United States mail, addressed and mailed as aforesaid, or (iii) if sent *via* facsimile, upon confirmation of facsimile transfer or, if sent *via* electronic mail, upon confirmation of delivery when directed to the relevant electronic mail address, if sent during normal business hours of the recipient, or if not sent during normal business hours of the recipient, then on the recipient's next business day.

26. **Applicable Law and Consent to Jurisdiction.** This Agreement and the legal relations among the parties shall be governed by, and construed and enforced in accordance with, the laws of the State of Delaware, without regard to its conflict of laws rules. Except with respect to any arbitration commenced by Indemnitee pursuant to Section 12(a) of this Agreement, the Company and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court of Chancery, and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court of Chancery for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court of Chancery, and (iv) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court of Chancery has been brought in an improper or inconvenient forum.

27. **Counterparts.** This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. This Agreement may also be executed and delivered by facsimile signature and in counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

28. **Captions.** The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

29. **Period of Limitations**. No legal action shall be brought and no cause of action shall be asserted by or in the right of the Company against Indemnitee, Indemnitee's estate, spouse, heirs, executors or personal or legal representatives after the expiration of two years from the date of accrual of such cause of action, and any claim or cause of action of the Company shall be extinguished and deemed released unless asserted by the timely filing of a legal action within such two-year period; *provided*, *however*, that if any shorter period of limitations is otherwise applicable to any such cause of action, such shorter period shall govern.

(*signature page follows*)

The parties are signing this Indemnification Agreement as of the date stated in the introductory sentence.

BROCADE COMMUNICATIONS SYSTEMS, INC.

(*Signature*) ______________

(*Print name*) ______________

(*Title*) ______________

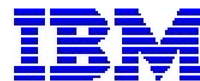
[*INSERT INDEMNITEE NAME*]

(*Signature*) ______________

(*Print name*) ______________

(*Street address*) ______________

(*City, State and ZIP*) ______________



3039 E CORNWALLIS RD
RESEARCH TRIANGLE PARK NC 27709-2195

April 17, 2014

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

Subject: Amendment #24 to Statement of Work #4903RL1112 ("SOW #3" or "SOW") dated September 27, 2013

This Amendment #24 ("Amendment") to Statement of Work # 4903RL1112 ("SOW #3" or "SOW") adopts and incorporates by reference the terms and conditions of Goods Agreement # 4999RO0015 ("Agreement") by and between Brocade Communications Systems, Inc. ("Brocade") and International Business Machines Corporation ("IBM"). The parties agree to amend the SOW as follows. All other terms and conditions in the Base Agreement and SOW shall remain in full force and effect.

The purpose of this Amendment is to remove all adaptor part numbers. Brocade sold the adaptor business to QLogic on January 17, 2014 and IBM is buying all such Products, including support, from QLogic.

Now, therefore,

1. **Delete the following Product Unique Attachments to Attachment 1:**
    - PRODUCT UNIQUE ATTACHMENT #3, EFFECTIVE BEGINNING FEBRUARY 17, 2009
    - PRODUCT UNIQUE ATTACHMENT #4, EFFECTIVE BEGINNING July 19, 2009
    - PRODUCT UNIQUE ATTACHMENT #7, EFFECTIVE OCTOBER 30, 2009
    - PRODUCT UNIQUE ATTACHMENT #8, EFFECTIVE SEPTEMBER 08, 2010
    - PRODUCT UNIQUE ATTACHMENT #11, EFFECTIVE MARCH 14, 2013
    - PRODUCT UNIQUE ATTACHMENT #12, EFFECTIVE FEBRUARY 21, 2012

2. **Replace "Attachment 6, Product Part Numbers and Pricing" in its entirety with the attached "Attachment 6, Product Part Numbers and Pricing".**
    - Remove all HBA and CNA part numbers
    - Add SFP+, LR, 10G, 1-PK, BR

The parties acknowledge that they have read this Amendment, understand it, and agree to be bound by its terms and conditions. Further, they agree that this Amendment and the subject Agreement are the complete and exclusive statement of the agreement between the parties, superseding all proposals or other prior agreements, oral or written, and all other communications between the parties relating to this subject.

Except as specifically provided for in the foregoing provisions of this Amendment, the SOW shall continue in full force and effect. All capitalized terms defined in the Agreement which are used in this Amendment without further definition shall have the meanings ascribed to them in the Agreement.

Please have your authorized representative indicate acceptance thereof by signing the Amendment and returning one copy to the attention of David Raymond. This amendment will be effective when signed by both parties.

ACCEPTED AND AGREED TO:
International Business Machines Corporation
By:
/s/ Alan Sullivan 4/28/2014
IBM Signature Date
Alan Sullivan
Printed Name
Procurement Manager
Title & Organization

Address:
3039 Cornwallis Rd
RTP, NC 27709
USA

ACCEPTED AND AGREED TO:
Brocade Communications Systems, Inc.
By:
/s/ Charles Looming 4/16/14
Brocade Signature Date
Charles Looming
Printed Name
VP OEM Data Center Solutions
Title & Organization

Address:
130 Holger Way
San Jose, CA 95134-1376
USA

ACCEPTED AND AGREED TO:
Brocade Communications Switzerland, SarL
By:
/s/ Kevin L. McKenna April 17th, 2014
Authorized Signature Date
Kevin L. McKenna
Printed Name
Director
Title & Organization

BROCADE
R. Borders /s/ R. Borders
Legal Approved on 4/16/2014

ATTACHMENT 6

PRODUCT PART NUMBERS AND PRICING

(see following pages)

PRODUCT PRICE LIST AND DESCRIPTION

Buyer Part Number	Supplier Part Number *	Fulfillment locations (if required) *	Product Description	Unit Price of Product	Ship group adder	Freight	**Software Maintenance	Direct Price (FCA)	Hub Price (DDU) DDU Incoterms 2000 = DAP Incoterms 2010
2GBit/sec Software Products (Refer to EOL section for Switch Module)									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
2GBit/sec Software Products - Intel (Refer to EOL section for Switch Module)									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
4GBit/sec Software & POD Products (Refer to EOL section for Switch Module)									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]					
[***]	[***]	[***]	[***]	[***]					
[***]	[***]	[***]	[***]	[***]					
[***]	[***]	[***]	[***]	[***}					
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]					
8GBit/sec Products (Brocade 8Gb Fibre Channel Switch Module)									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
16GBit/sec Products (Brocade 16Gb Fibre Channel Switch Module)									
Brocade 16Gb FC Switch Module									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Optional Software (Features on Demand)									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
Brocade 16Gb FC 24p Switch Module Bundle									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]

Base Agreement 34999RO0015
Statement of Work #4903RL1112 (SOW 3)
AMENDMENT 24 - ATTACHMENT 6
Date: APRIL 17, 2014 FINAL

PRODUCT PRICE LIST AND DESCRIPTION

Buyer Part Number	Supplier Part Number *	Fulfillment locations (if required) *	Product Description	Unit Price of Product	Ship group adder	Freight	**Software Maintenance	Direct Price (FCA)	Hub Price (DDU) DDU Incoterms 2000 = DAP Incoterms 2010
FCoE Switch Module									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]

IBM Flex System EN4023 10Gb Scalable Switch									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]

Base Agreement 34999RO0015
Statement of Work #4903RL1112 (SOW 3)
AMENDMENT 24 - ATTACHMENT 6
Date: APRIL 17, 2014 FINAL

PRODUCT PRICE LIST AND DESCRIPTION

Buyer Part Number	Supplier Part Number *	Product Description	Unit Price of Product	Ship group adder	Freight	**Software Maintenance	Direct Price (FCA)	Hub Price (DDU) DDU Incoterms 2000 = DAP Incoterms 2010
4Gb TRANSCEIVERS								
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
8Gb TRANSCEIVERS (Reference EOL Section for Transceivers)								
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
16Gb TRANSCEIVERS								
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
10Gb TRANSCEIVERS								
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	**[***]**	**[***]**	**[***]**	**[***]**	**[***]**	**[***]**	**[***]**	**[***]**

Base Agreement 34999RO0015
Statement of Work #4903RL1112 (SOW 3)
AMENDMENT 24 - ATTACHMENT 6
Date: APRIL 17, 2014 FINAL

PRODUCT PRICE LIST AND DESCRIPTION

REPAIR - SWITCH MODULES

Buyer P/N	Supplier P/N	Description	TAT (In warranty or out of warranty repair)	Repair Price (USD)*
2GBit/sec Products (Brocade 2Gb Fibre Channel Switch Module) - END OF LIFE				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
4GBit/sec Products (Brocade 4Gb Fibre Channel Switch Module) - END OF LIFE				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
8GBit/sec Products (Brocade 8Gb Fibre Channel Switch Module)				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
16GBit/sec Products (Brocade 16Gb Fibre Channel Switch Module)				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
FCoE Switch Module				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]

***Repair Price applies only to Products sent to Supplier for Repair, which are not covered by the warranties in the Agreement.**

PRODUCT PRICE LIST AND DESCRIPTION

The following part numbers are to be used as replacements by Supplier when notified by Buyer that product has arrived "dead on arrival"

Buyer P/N	Supplier P/N	Description	Repair Price (USD)*
8GBit/sec Products (for DOA purposes ONLY - NOT orderable by buyer)			
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
IBM Flex System EN4023 10Gb Scalable Switch (for DOA purposes ONLY - NOT orderable by buyer)			
[***]	[***]	[***]	[***]
16GBit/sec Products (for DOA purposes ONLY - NOT orderable by buyer)			
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]

Base Agreement 34999RO0015
Statement of Work #4903RL1112 (SOW 3)
AMENDMENT 24 - ATTACHMENT 6
Date: APRIL 17, 2014 FINAL

PRODUCT PRICE LIST AND DESCRIPTION

REPAIR - TRANSCEIVERS

Buyer Part Number	Supplier Part Number *	Product Description	TAT (In warranty or out of warranty repair)	Repair Price (USD)*
4Gb TRANSCEIVERS				
[***]	[***]	[***]	[***]	[***]
8Gb TRANSCEIVERS				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
16Gb TRANSCEIVERS				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
10Gb TRANSCEIVERS				
[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]
[***]	**[***]**	**[***]**	**[***]**	**[***]**

*** Products listed are replacement only as covered by the warranties in the agreement.**

Base Agreement 34999RO0015
Statement of Work #4903RL1112 (SOW 3)
AMENDMENT 24 - ATTACHMENT 6
Date: APRIL 17, 2014 FINAL

PRODUCT PRICE LIST AND DESCRIPTION

END OF LIFE PRODUCTS ONLY (SWITCH MODULES)

Buyer Part Number	Supplier Part Number *	Fulfillment locations (if required) *	Product Description	Unit Price of Product	Ship group adder	Freight	**Software Maintenance	Direct Price (FCA)	Hub Price (DDU)
2GBit/sec Products (Brocade 2Gb Fibre Channel Switch Module) - END OF LIFE									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
2GBit/sec Products (Brocade 2Gb Fibre Channel Switch Module / INTEL) - END OF LIFE									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
4GBit/sec Products (Brocade 4Gb Fibre Channel Switch Module) - END OF LIFE									
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]

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

Base Agreement 34999RO0015
Statement of Work #4903RL1112 (SOW 3)
AMENDMENT 24 - ATTACHMENT 6
Date: APRIL 17, 2014 FINAL

PRODUCT PRICE LIST AND DESCRIPTION

END OF LIFE PRODUCTS ONLY (TRANSCEIVERS)

Buyer Part Number	Supplier Part Number *	Product Description	Unit Price of Product	Ship group adder	Freight	**Software Maintenance	Direct Price (FCA)	Hub Price (DDU) DDU Incoterms 2000 = DAP Incoterms 2010
8Gb TRANSCEIVERS								
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]
[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]	[***]

Exhibit 31.1

CERTIFICATION

I, Lloyd A. Carney, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended May 3, 2014 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 6, 2014

/s/ Lloyd A. Carney

Lloyd A. Carney
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Daniel W. Fairfax, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended May 3, 2014 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 6, 2014

/s/ Daniel W. Fairfax

Daniel W. Fairfax
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, Lloyd A. Carney, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Brocade Communications Systems, Inc. for the fiscal quarter ended May 3, 2014 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 6, 2014

By: /s/ Lloyd A. Carney
Lloyd A. Carney
Chief Executive Officer

I, Daniel W. Fairfax, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Brocade Communications Systems, Inc. for the fiscal quarter ended May 3, 2014 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 6, 2014

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