FORM 8-K

Current report filing

Filing Date: **2013-05-16** | Period of Report: **2013-05-16**
SEC Accession No. 0001009626-13-000059

(HTML Version on secdatabase.com)

FILER

BROCADE COMMUNICATIONS SYSTEMS INC CIK:**1009626**| IRS No.: **770409517** | State of Incorp.:**DE** | Fiscal Year End: **1025** Type: **8-K** | Act: **34** | File No.: **000-25601** | Film No.: **13851308** SIC: **3577** Computer peripheral equipment, nec	Mailing Address *130 HOLGER WAY* *SAN JOSE CA 95134-1376*	Business Address *130 HOLGER WAY* *SAN JOSE CA 95134-1376* *(408) 333-8000*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

**Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934**

Date of report (Date of earliest event reported): May 16, 2013

BROCADE COMMUNICATIONS SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**000-25601**	**77-0409517**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification Number)**

**130 Holger Way
San Jose, CA 95134**
(Address, including zip code, of principal executive offices)

(408) 333-8000
(Registrant's telephone number, including area code)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On May 16, 2013, Brocade Communications Systems, Inc. (the "Company") issued a press release regarding financial results for the second quarter ended April 27, 2013. The Company also posted on its website (www.BRCD.com) slides with accompanying prepared remarks regarding such financial results and forward-looking statements, including statements relating to the Company's estimated financial results of the third quarter of fiscal year 2013. Copies of the press release and slides with accompanying prepared remarks by the Company are attached as Exhibits 99.1 and 99.2, respectively, and the information in Exhibits 99.1 and 99.2 is incorporated herein by reference.

The information in Item 2.02 and Item 9.01 in this Current Report on Form 8-K and the exhibits attached hereto shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

Exhibit Number	Description of Document
99.1	Press release, dated May 16, 2013, regarding financial results of Brocade Communications Systems, Inc. for the second quarter ended April 27, 2013.
99.2	Slides with accompanying prepared remarks of Brocade Communications Systems, Inc., dated May 16, 2013, regarding financial results of the second quarter ended April 27, 2013 and forward-looking statements, including statements relating to the Company's estimated financial results of the third quarter of fiscal year 2013.

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 hereunto duly authorized.

BROCADE COMMUNICATIONS SYSTEMS, INC.

Date: May 16, 2013

By: /s/ Daniel W. Fairfax

Daniel W. Fairfax

Chief Financial Officer and Vice President, Finance

Exhibit 99.1

BROCADE CONTACTS

Public Relations	Investor Relations
John Noh	Robert Eggers
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Brocade Reports Fiscal Q2 2013 Results

SAN JOSE, Calif., May 16, 2013 — Brocade® (NASDAQ: BRCD) today reported financial results for its second fiscal quarter ended April 27, 2013. Brocade reported second quarter revenue of $538.8 million, down slightly year-over-year and down 8% quarter-over-quarter. The company reported GAAP diluted earnings per share (EPS) of $0.10, up from $0.08 per diluted share in Q2 2012. Non-GAAP diluted EPS was $0.17, up from $0.15 in Q2 2012.

"Our storage area networking revenues did not meet our original expectations for Q2 due to short-term slowing in the storage market and execution challenges at certain of our large OEM partners. I believe the longer-term market opportunity for our SAN products continues to be favorable, supported by the fact that our Gen 5 (16 Gbps) Fibre Channel products exceeded 50% of our shipments of directors and switches in the quarter," said Lloyd Carney, CEO of Brocade. "Also in Q2, Brocade experienced strong year-over-year growth of our IP networking product sales highlighted by the performances of our Ethernet fabric, routing, and refreshed campus LAN portfolios. We were also able to increase profitability in a challenging environment."

Mr. Carney continued, "Following a thorough inspection of the business during my first four months as CEO, I believe that Brocade is well-positioned to be a leader in the new era of networking. To do so, we need to be more focused as a company and deliver consistent, profitable growth. We intend to improve our execution by aligning our business and focusing our team on fewer, but larger opportunities, such as data center networking, where we can leverage our expertise and reputation for innovation and quality. Our strategy is to deliver solutions that allow customers to increase returns from their information technology investments in traditional data center architectures as well as highly virtualized, cloud-enabled networks where enterprises and service providers are looking for improved performance at a lower cost of ownership. With a commitment to increasing profitability, managing expenses, and improving cash flow, I believe we can increase shareholder value."

Summary of Q2 2013 results:

- Storage Area Networking (SAN) business revenue, including products and services, was $374.4 million, down 6% year-over-year and 10% sequentially due to soft demand in the overall storage market that impacted the company's revenue from some of its OEM partners. SAN product revenue decreased 7% year-over-year and 12% sequentially. Although revenue was lower year-over-year for directors, switches, and embedded products, Brocade's industry-leading Gen 5 (16 Gbps) Fibre Channel products represented approximately 52% of director and switch revenue in the quarter, higher than the 23% reported in Q2 2012 and 42% in Q1 2013.
- IP Networking business revenue, including products and services, was $164.4 million, up 15% year-over-year and down 4% quarter-over-quarter. The year-over-year growth was driven by solid growth in Ethernet switch revenue, up 13% year-over-year, and routing revenue, up 34% year-over-year, which offset lower sales of application delivery products. The sequential decline in IP Networking revenue was principally due to lower application delivery product revenue as well as lower Ethernet switch sales into the U.S. federal government, which is typical in the company's second fiscal quarter.
- GAAP gross margin was 62.0% and non-GAAP gross margin was 65.1% in Q2 2013, compared with 62.0% and 64.8% in Q2 2012, respectively. The year-over-year improvement in non-GAAP gross margin was due in part to a more favorable product mix within the IP Networking segment. Gross margin declined quarter-over-quarter due to lower overall revenue and an unfavorable revenue mix to lower margin IP Networking segment products from SAN segment products.
- GAAP operating margin was 10.6% and non-GAAP operating margin was 19.0% in Q2 2013, compared with 9.5% and 18.6% in Q2 2012, respectively. The year-over-year improvement in operating margin was due to the higher gross margin noted above. Operating margin declined quarter-over-quarter due to lower revenue and gross margin. Non-GAAP operating expenses of $248.2 million were down slightly both year-over-year and quarter-over-quarter.

- Operating cash flow was $119.6 million in Q2 2013, down 15% from Q2 2012 and up 101% quarter-over-quarter in a seasonally strong quarter for cash generation. The lower operating cash flow year-over-year was due to a higher accounts receivable balance as shipments in Q2 2013 returned to more normal linearity. Operating cash flow was higher quarter-over-quarter as Q1 2013 included the payment of sales commissions and other employee variable compensation earned in the prior year as well as the semi-annual payment of the interest on our outstanding notes.
- GAAP diluted EPS was $0.10 in Q2 2013, up 22% year-over-year, and non-GAAP diluted EPS of $0.17 was up 10% year-over-year. The company recorded a tax benefit of approximately $0.02 per share resulting from the final resolution of various federal tax audits during the quarter.
- Average diluted shares outstanding for Q2 2013 were 466.9 million shares, down 2% year-over-year and up slightly quarter-over-quarter. The company repurchased 6.8 million shares for $38.6 million during Q2 2013. Subsequent to the end of Q2 2013, the company has repurchased an additional 9.3 million shares for $51.1 million and has approximately $411 million remaining in the Board-authorized share repurchase program as of May 15, 2013.

Brocade management will host a conference call to discuss fiscal second quarter results and fiscal third quarter outlook today at 2:30 p.m. PT (5:30 p.m. ET). To access the Webcast please go to www.brcd.com/events.cfm. A replay of the conference call, prepared comments and slides, as well as a written transcript, will be available at www.brcd.com.

Other Q2 2013 product, customer and partner announcements are available at http://newsroom.brocade.com/.

Brocade (www.brocade.com)
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Financial Highlights and Additional Financial Information

	Q2 2013	Q1 2013	Q2 2012
Revenue	$ 539M	$ 589M	$ 543M
GAAP net income (loss)	$ 47M	($21M)	$ 39M
Non-GAAP net income	$ 78M	$ 99M	$ 72M
GAAP EPS — diluted	$ 0.10	$ (0.05)	$ 0.08
Non-GAAP EPS — diluted	$ 0.17	$ 0.21	$ 0.15
GAAP gross margin	62.0%	63.5%	62.0%
Non-GAAP gross margin	65.1%	66.0%	64.8%
GAAP operating income	$ 57M	$ 93M	$ 52M
Non-GAAP operating income	$ 103M	$ 138M	$ 101M
GAAP operating margin	10.6%	15.8%	9.5%
Non-GAAP operating margin	19.0%	23.5%	18.6%
Adjusted EBITDA (1)	$ 120M	$ 162M	$ 123M
Cash provided by operations	$ 120M	$ 59M	$ 140M

- Q2 2013 effective GAAP tax benefit rate was (0.4)% and effective non-GAAP tax rate was 15.9%.
- Q2 2013 total Storage Area Networking (SAN) port shipments were approximately 1.0 million.

Please see important note of explanation on non-GAAP financial measures below, including a detailed reconciliation between GAAP and non-GAAP information in the tables included herein.

1) Adjusted EBITDA is as defined in the Term Debt Credit Agreement.

Financial Highlights and Additional Financial Information (Continued)

	Q2 2013	Q1 2013	Q2 2012
As a % of total revenues:			
OEM revenues	66%	67%	70%
Channel/Direct revenues	34%	33%	30%
10% or greater customer revenues	45%	46%	58%
Domestic revenues	58%	62%	65%
International revenues	42%	38%	35%
SAN product revenues	59%	61%	63%
IP Networking product revenues	25%	24%	21%
Global Services revenue	16%	15%	16%
SAN business revenues (2)	69%	71%	74%
IP Networking business revenues (2)	31%	29%	26%
Estimates as a % of IP Networking business revenues:			
Enterprise, excluding Federal	49%	47%	54%
Federal	13%	15%	11%
Service Provider	38%	38%	35%

	Q2 2013	Q1 2013	Q2 2012
Cash, cash equivalents and short-term investments	$ 764M	$ 684M	$ 545M
Restricted cash (3)	$ —	$ 312M	$ —
Deferred revenues	$ 302M	$ 296M	$ 278M
Capital expenditures	$ 13M	$ 18M	$ 21M
Total debt, net of discount (3)	$ 599M	$ 900M	$ 670M
Days sales outstanding	40 days	34 days	36 days
Employees at end of period	4,648	4,604	4,600

2) SAN and IP Networking business revenues include product, support and services revenues.
3) Q1 2013 restricted cash was used to redeem $300M of 2018 notes on February 21, 2013.

Non-GAAP Financial Measures

This press release contains non-GAAP financial measures. In evaluating Brocade's performance, management uses certain non-GAAP financial measures to supplement consolidated financial statements prepared under GAAP.

Management believes that non-GAAP financial measures used in this press release allow management to gain a better understanding of Brocade's comparative operating performance both from period to period, and to its competitors' operating results. Management also believes these non-GAAP financial measures help indicate Brocade's baseline performance before gains, losses or charges that are considered by management to be outside ongoing operating results. Accordingly, management uses these non-GAAP financial measures for planning and forecasting of future periods and in making decisions regarding operations performance and the allocation of resources. Management believes these non-GAAP financial measures, when read in conjunction with Brocade's GAAP financials, provide useful information to investors by offering:

- the ability to make more meaningful period-to-period comparisons of Brocade's ongoing operating results;
- the ability to make more meaningful comparisons of Brocade's operating performance against industry and competitor companies;
- the ability to better identify trends in Brocade's underlying business and to perform related trend analysis;
- a better understanding of how management plans and measures Brocade's underlying business; and
- an easier way to compare Brocade's most recent results of operations against investor and analyst financial models.

Management excludes certain gains or losses and benefits or costs in determining non-GAAP net income that are the result of infrequent events or arise outside the ordinary course of Brocade's continuing operations. Management believes that it is appropriate to evaluate Brocade's operating performance by excluding those items that are not indicative of ongoing operating results or limit comparability. Such items include: (i) provision or benefit associated with certain pre-acquisition litigation (ii) legal fees associated with certain pre-acquisition litigation, (iii) legal fees associated with indemnification obligations and other related costs, net, (iv) acquisition and integration costs, (v) loss on sale of property, (vi) interest expense related to the adoption of new standards relating to convertible debt instruments, (vii) call premium cost and original issue discount and debt issuance costs of debt related to lenders that did not participate in refinancing, (viii) loss on sale of subsidiary, and (ix) specific non-cash and non-recurring tax benefits or detriments.

Management also excludes the following non-cash charges in determining non-GAAP net income (i) stock-based compensation expense and (ii) amortization of purchased intangible assets. Because of varying available valuation methodologies, subjective assumptions and the variety of award types, management believes that the exclusion of stock-based compensation allows for more accurate comparisons of our operating results to our peer companies. Management also believes that the expense associated with the amortization of acquisition-related intangible assets is appropriate to be excluded because a significant portion of the purchase price for acquisitions may be allocated to intangible assets that have short lives and exclusion of the amortization expense allows comparisons of operating results that are consistent over time for Brocade's newly acquired and long-held businesses.

Finally, management believes that it is appropriate to exclude the tax effects of the items noted above in order to present a more meaningful measure of non-GAAP net income.

Limitations These non-GAAP financial measures have limitations, however, because they do not include all items of income and expense that impact the Company. Management compensates for these limitations by also considering Brocade's GAAP results. The non-GAAP financial measures that Brocade uses are not prepared in accordance with, and should not be considered an alternative to measurements required by GAAP, such as operating income, net income and net income per share, and should not be considered measurements of Brocade's liquidity. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP measures. In addition, these non-GAAP financial measures may not be comparable to similar measurements reported by other companies.

Cautionary Statement

This press release contains statements that are forward-looking in nature, including statements regarding Brocade's strategy, business prospects, organizational and business alignment, profitability, expense management, cash flow, and market conditions. These statements are based on current expectations on the date of this press release and involve a number of risks and uncertainties which may cause actual results to differ significantly from such estimates. The risks include, but are not limited to, changes in IT spending levels in one or more of our target markets including the data center, federal government and service provider sectors, customer acceptance of Brocade's Ethernet fabric solutions, Brocade's ability to continue to successfully innovate new products and services on a timely basis and achieve widespread market acceptance, and the effect of increasing market competition and changes in the industry. Certain of these and other risks are set forth in more detail in "Item 1A. Risk Factors" in Brocade's Quarterly Report on Form 10-Q for the fiscal quarter ended January 26, 2013 and in Brocade's Annual Report on Form 10-K for the fiscal year ended October 27, 2012. Brocade does not assume any obligation to update or revise any such forward-looking statements, whether as the result of new developments or otherwise.

About Brocade

Brocade (NASDAQ: BRCD) networking solutions help the world's leading organizations transition smoothly to a world where applications and information reside anywhere. (www.brocade.com)

ADX, AnyIO, Brocade, Brocade Assurance, the B-wing symbol, DCX, Fabric OS, ICX, MLX, MyBrocade, OpenScript, VCS, VDX, and Vyatta are registered trademarks, and HyperEdge, The Effortless Network, and The On-Demand Data Center are trademarks of Brocade Communications Systems, Inc., in the United States and/or in other countries. Other brands, products, or service names mentioned may be trademarks of their respective owners.

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

	Three Months Ended		Six Months Ended	
	April 27, 2013	April 28, 2012	April 27, 2013	April 28, 2012
	(In thousands, except per share amounts)			
Net revenues				
Product	$ 451,746	$ 456,104	$ 953,993	$ 932,406
Service	87,038	87,335	173,520	171,675
Total net revenues	538,784	543,439	1,127,513	1,104,081
Cost of revenues				
Product	164,599	164,177	338,974	339,584
Service	40,073	42,180	80,502	82,646
Total cost of revenues	204,672	206,357	419,476	422,230
Gross margin	334,112	337,082	708,037	681,851
Operating expenses:				
Research and development	98,429	92,931	196,119	182,250
Sales and marketing	145,316	158,855	294,327	311,543
General and administrative	20,037	18,790	39,114	37,140
Amortization of intangible assets	13,151	14,737	28,007	29,730
Total operating expenses	276,933	285,313	557,567	560,663
Income from operations	57,179	51,769	150,470	121,188
Interest expense	(10,432)	(12,729)	(36,800)	(25,775)
Interest and other income (loss), net	31	(452)	97	(1,448)
Income before income tax	46,778	38,588	113,767	93,965
Income tax expense (benefit)	(171)	(708)	88,073	(3,915)
Net income	$ 46,949	$ 39,296	$ 25,694	$ 97,880
Net income per share — basic	$ 0.10	$ 0.09	$ 0.06	$ 0.22
Net income per share — diluted	$ 0.10	$ 0.08	$ 0.06	$ 0.21
Shares used in per share calculation — basic	453,133	457,541	453,988	455,017
Shares used in per share calculation — diluted	466,919	476,848	466,620	472,793

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

	Three Months Ended		Six Months Ended	
	April 27, 2013	April 28, 2012	April 27, 2013	April 28, 2012
	(In thousands)			
Net income	$ 46,949	$ 39,296	$ 25,694	$ 97,880
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on cash flow hedges:				
Change in unrealized gains and losses	(1,915)	(113)	(1,992)	(4,282)
Net (gains) losses reclassified into earnings	(32)	1,599	(210)	2,923
Net unrealized gains (losses) on cash flow hedges	(1,947)	1,486	(2,202)	(1,359)
Foreign currency translation adjustments	(1,762)	84	(2,142)	(1,476)
Total other comprehensive income (loss)	$ (3,709)	$ 1,570	(4,344)	(2,835)
Total comprehensive income	$ 43,240	$ 40,866	$ 21,350	$ 95,045

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

	April 27, 2013	October 27, 2012
	(In thousands, except par value)	
Assets		
Current assets:		
Cash and cash equivalents	$ 764,298	$ 713,226
Accounts receivable, net of allowances for doubtful accounts of $831 and $833 at April 27, 2013 and October 27, 2012, respectively	239,311	233,139
Inventories	52,911	68,179
Deferred tax assets	54,710	91,539
Prepaid expenses and other current assets	53,265	49,496
Total current assets	1,164,495	1,155,579
Property and equipment, net	499,968	518,940
Goodwill	1,647,767	1,624,089
Intangible assets, net	85,807	109,265
Non-current deferred tax assets	80,824	136,175
Other assets	31,962	37,213
Total assets	$ 3,510,823	$ 3,581,261
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 101,266	$ 117,350
Accrued employee compensation	133,788	182,597
Deferred revenue	226,228	216,283
Current portion of long-term debt	2,306	1,977
Other accrued liabilities	85,634	92,261
Total current liabilities	549,222	610,468
Long-term debt, net of current portion	596,971	599,203
Non-current deferred revenue	76,218	76,907
Non-current income tax liability	38,514	55,387
Other non-current liabilities	3,305	3,476
Total liabilities	1,264,230	1,345,441
Commitments and contingencies		
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: 452,841 and 456,913 shares at April 27, 2013 and October 27, 2012, respectively	453	457
Additional paid-in capital	1,998,617	2,009,190
Accumulated other comprehensive loss	(14,208)	(9,864)
Retained earnings	261,731	236,037
Total stockholders' equity	2,246,593	2,235,820
Total liabilities and stockholders' equity	$ 3,510,823	$ 3,581,261

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

	Three Months Ended	
	April 27, 2013	April 28, 2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 46,949	$ 39,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from stock-based compensation	(3,248)	(185)
Depreciation and amortization	43,964	47,419
Loss on disposal of property and equipment	1,057	40
Amortization of debt issuance costs and original issue discount	268	1,392
Call premium cost related to lenders that did not participate in refinancing	(9,939)	—
Net gains on investments	—	(12)
Provision for doubtful accounts receivable and sales allowances	2,206	3,164
Non-cash compensation expense	19,172	23,858
Changes in assets and liabilities:		
Restricted cash	11,926	—
Accounts receivable	(24,811)	(1,638)
Inventories	6,980	(553)
Prepaid expenses and other assets	(12)	(1,311)
Deferred tax assets	157	170
Accounts payable	268	2,867
Accrued employee compensation	18,407	21,656
Deferred revenue	6,405	(353)
Other accrued liabilities	(134)	4,458
Net cash provided by operating activities	119,615	140,268
Cash flows from investing activities:		
Proceeds from sale of subsidiary	—	250
Purchases of property and equipment	(13,082)	(20,713)
Net cash used in investing activities	(13,082)	(20,463)
Cash flows from financing activities:		
Payment of principal related to senior secured notes	(300,000)	—
Payment of principal related to the term loan	—	(50,000)
Payment of debt issuance costs related to senior unsecured notes	(549)	—
Payment of principal related to capital leases	(491)	(464)
Common stock repurchases	(38,649)	(25,066)
Proceeds from issuance of common stock	12,087	15,320
Excess tax benefits from stock-based compensation	3,248	185
Decrease in restricted cash	300,000	—
Net cash used in financing activities	(24,354)	(60,025)
Effect of exchange rate fluctuations on cash and cash equivalents	(1,497)	320
Net increase in cash and cash equivalents	80,682	60,100
Cash and cash equivalents, beginning of period	683,616	484,239

Cash and cash equivalents, end of period	$ 764,298	$ 544,339

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

	Six Months Ended	
	April 27, 2013	April 28, 2012
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 25,694	$ 97,880
Adjustments to reconcile net income to net cash provided by operating activities:		
Excess tax benefits from stock-based compensation	(5,440)	(1,332)
Non-cash tax charges	78,206	—
Depreciation and amortization	93,358	97,524
Loss on disposal of property and equipment	3,046	296
Amortization of debt issuance costs and original issue discount	665	2,626
Extinguishment of original issue discount and debt issuance costs related to lenders that did not participate in refinancing	5,360	—
Net gains on investments	—	(24)
Provision for doubtful accounts receivable and sales allowances	4,560	5,864
Non-cash compensation expense	38,322	45,677
Changes in assets and liabilities:		
Accounts receivable	(10,561)	25,440
Inventories	16,605	(7,379)
Prepaid expenses and other assets	(1,714)	300
Deferred tax assets	322	192
Accounts payable	(14,692)	(6,689)
Accrued employee compensation	(54,163)	8,643
Deferred revenue	7,924	7,657
Other accrued liabilities	(8,387)	(9,356)
Net cash provided by operating activities	179,105	267,319
Cash flows from investing activities:		
Proceeds from sale of subsidiary	—	35
Purchases of property and equipment	(31,568)	(38,269)
Net cash paid in connection with acquisition	(44,629)	—
Net cash used in investing activities	(76,197)	(38,234)
Cash flows from financing activities:		
Proceeds from senior unsecured notes	296,250	—
Payment of principal related to senior secured notes	(300,000)	—
Payment of principal related to the term loan	—	(120,000)
Payment of debt issuance costs related to senior unsecured notes	(549)	—
Payment of principal related to capital leases	(975)	(920)
Common stock repurchases	(86,179)	(25,066)
Proceeds from issuance of common stock	35,899	47,261
Excess tax benefits from stock-based compensation	5,440	1,332
Net cash used in financing activities	(50,114)	(97,393)
Effect of exchange rate fluctuations on cash and cash equivalents	(1,722)	(1,555)
Net increase in cash and cash equivalents	51,072	130,137

Cash and cash equivalents, beginning of period	713,226	414,202
Cash and cash equivalents, end of period	$ 764,298	$ 544,339

BROCADE COMMUNICATIONS SYSTEMS, INC.
RECONCILIATION BETWEEN GAAP AND NON-GAAP NET INCOME
(Unaudited)

	Three Months Ended	
	April 27, 2013	April 28, 2012
	(In thousands, except per share amounts)	
Net income on a GAAP basis	$ 46,949	$ 39,296
Adjustments:		
Stock-based compensation expense included in cost of revenues	3,541	4,596
Amortization of intangible assets expense included in cost of revenues	9,651	10,713
Provision associated with certain pre-acquisition litigation	3,460	—
Total gross margin adjustments	16,652	15,309
Stock-based compensation expense included in research and development	4,500	5,603
Stock-based compensation expense included in sales and marketing	8,012	10,687
Stock-based compensation expense included in general and administrative	3,119	2,972
Amortization of intangible assets expense included in operating expenses	13,151	14,737
Total operating expense adjustments	28,782	33,999
Total operating income adjustments	45,434	49,308
Income tax effect of non-tax adjustments	(14,814)	(16,380)
Non-GAAP net income	$ 77,569	$ 72,224
Non-GAAP net income per share — basic	$ 0.17	$ 0.16
Non-GAAP net income per share — diluted	$ 0.17	$ 0.15
Shares used in non-GAAP per share calculation — basic	453,133	457,541
Shares used in non-GAAP per share calculation — diluted	466,919	476,848

BROCADE COMMUNICATIONS SYSTEMS, INC.
RECONCILIATION BETWEEN GAAP AND NON-GAAP NET INCOME
(Unaudited)

	Six Months Ended	
	April 27, 2013	April 28, 2012
	(In thousands, except per share amounts)	
Net income on a GAAP basis	$ 25,694	$ 97,880
Adjustments:		
Stock-based compensation expense included in cost of revenues	7,487	8,971
Amortization of intangible assets expense included in cost of revenues	20,431	24,803
Legal fees recovery associated with certain pre-acquisition litigation	—	(51)
Provision associated with certain pre-acquisition litigation	3,460	—
Total gross margin adjustments	31,378	33,723
Stock-based compensation expense included in research and development	9,185	10,631
Stock-based compensation expense included in sales and marketing	16,157	20,463
Stock-based compensation expense included in general and administrative	5,493	5,612
Amortization of intangible assets expense included in operating expenses	28,007	29,730
Total operating expense adjustments	58,842	66,436
Total operating income adjustments	90,220	100,159
Call premium cost and original issue discount and debt issuance costs related to lenders that did not participate in refinancing	15,299	—
Tax provision impact from passage of California Proposition 39 - Single Sales Factor apportionment	78,206	—
Income tax effect of non-tax adjustments	(33,101)	(33,003)
Non-GAAP net income	$ 176,318	$ 165,036
Non-GAAP net income per share — basic	$ 0.39	$ 0.36
Non-GAAP net income per share — diluted	$ 0.38	$ 0.35
Shares used in non-GAAP per share calculation — basic	453,988	455,017
Shares used in non-GAAP per share calculation — diluted	466,620	472,793

BROCADE

Q2 FY 2013 Earnings

Prepared Comments and Slides

May 16, 2013

Rob Eggers
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NASDAQ: **BRCD**

Prepared comments provided by Rob Eggers, Investor Relations

Thank you for your interest in Brocade's Q2 Fiscal 2013 earnings presentation, which includes prepared remarks, safe harbor, slides, and a press release detailing fiscal second quarter 2013 results. The press release was issued shortly after 1:00 p.m. PT on May 16, 2013 via Marketwire. The press release, along with these prepared comments and slides, has been furnished to the SEC on Form 8-K and will be made available on the Brocade Investor Relations website at www.brcd.com.

Cautionary Statements and Disclosures

Please see risk factors on Form 10-Q and Form 10-K filed with the SEC

This presentation, with prepared remarks, includes forward-looking statements regarding Brocade's financial results, plans, guidance, strategy and business outlook, organizational changes and alignment, reductions on spending, tax rate, OEM inventory, OEM partnerships, as well as Europe economic outlook, worldwide SAN and Ethernet fabric demand, U.S. federal market opportunities, customer segment uncertainty, and IT spending, which are only predictions and involve risks and uncertainties such that actual results may vary significantly. These and other risks are set forth in more detail in our Form 10-K for the fiscal year ended October 27, 2012 and our Form 10-Q for the fiscal quarter ended January 26, 2013. These forward-looking statements reflect beliefs, assumptions, outlook, estimates, and predictions as of today, and Brocade expressly assumes no obligation to update any such forward-looking statements whether as the result of new developments or otherwise.

In addition, this presentation includes various third-party estimates regarding the total available market and other measures, which do not necessarily reflect the views of Brocade. Further, Brocade does not guarantee the accuracy or reliability of any such information or forecast.

Certain financial information is presented on a non-GAAP basis. Management believes that non-GAAP financial measures used in this presentation allow stakeholders to gain a better understanding of Brocade's comparative operating performance both from period to period, and to its competitors' operating results. Management also believes these non-GAAP financial measures help indicate Brocade's baseline performance before gains, losses or charges that are considered by management to be outside of ongoing operating results. Accordingly, management uses these non-GAAP financial measures for planning and forecasting of future periods and in making decisions regarding operations performance and the allocation of resources. The most directly comparable GAAP information and a reconciliation between the non-GAAP and GAAP figures are provided in the accompanying press release, which has been furnished to the SEC on Form 8-K and posted on Brocade's website, and is included in the appendix in this presentation.

Agenda

Prepared comments followed by live Q&A call

Lloyd Carney
CEO

Dan Fairfax
CFO

Today's prepared comments include remarks by Lloyd Carney, Brocade CEO, regarding the company's quarterly results, its strategy, and a review of operations, as well as industry trends and market/ technology drivers related to its business; and by Dan Fairfax, Brocade CFO, who will provide a financial review.

A management discussion and live question and answer conference call will be webcast at 2:30 p.m. PT on May 16 at www.brcd.com and will be archived on the Brocade Investor Relations website.

Fiscal 2013: Q2 Earnings

Lloyd Carney, CEO

Prepared comments provided by Lloyd Carney, CEO

Q2 2013 Executive Summary

Includes non-GAAP* results

OVERALL RESULTS

- $539M revenue, down 1% Yr./Yr.
- $0.10 GAAP EPS per share, up 22% Yr./Yr.
- $0.17 non-GAAP EPS, up 10% Yr./Yr.
- 65.1% non-GAAP gross margin, up 30 basis points Yr./Yr.
- 19.0% non-GAAP operating margin, up 40 basis points Yr./Yr.

BUSINESS SEGMENT DETAIL

- SAN product revenue down 7% Yr./Yr.
  - Softness in storage market due to challenging macro environment
  - Strong Brocade Gen 5 Fibre Channel adoption now more than 50% of director and switch revenue
- IP Networking product revenue up 17% Yr./Yr.
  - Routing, Ethernet fabrics, and campus LAN switching up Yr./Yr.

*Non-GAAP, please see GAAP reconciliation in appendix

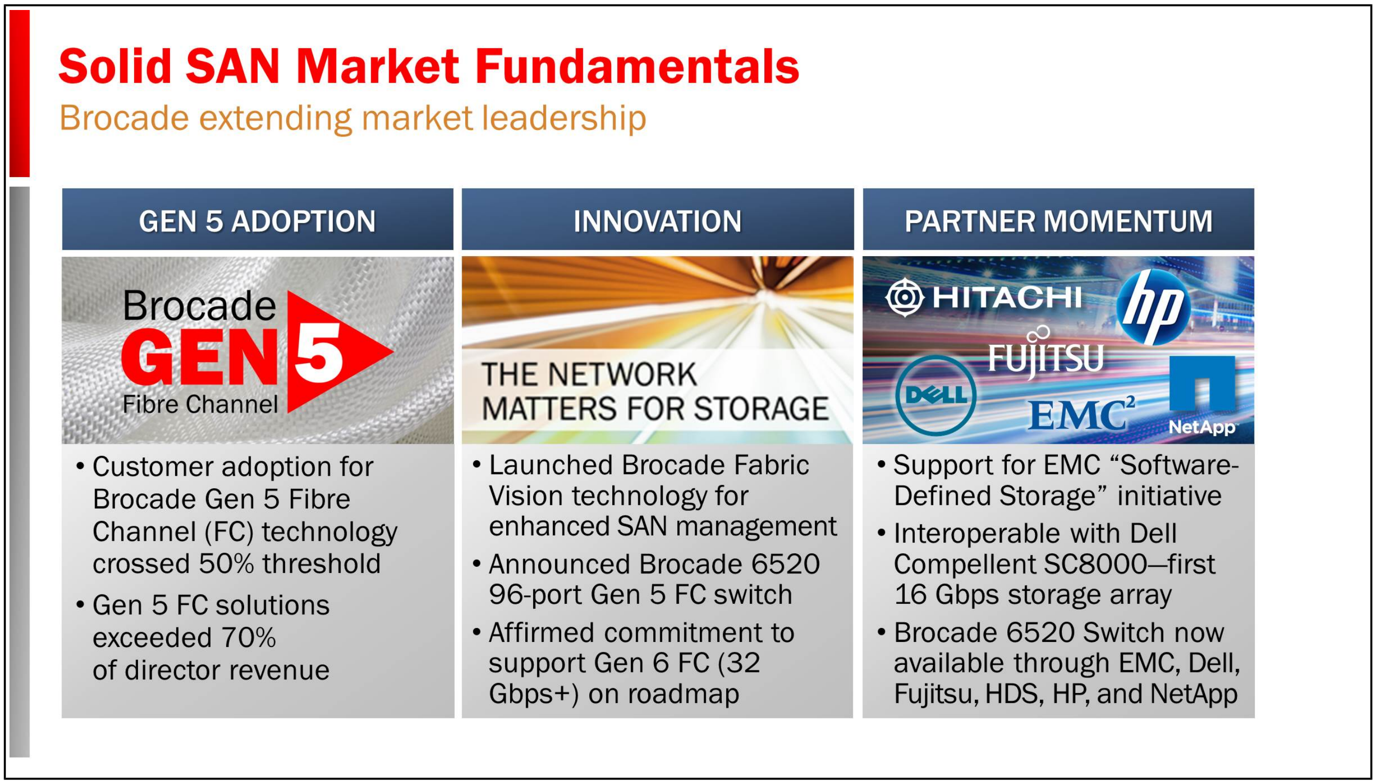
Thank you for joining us today. Q2 13 was a mixed quarter for Brocade's financial results. Against the backdrop of a challenging environment for storage, our SAN revenue came in lower than our original expectations. However, IP Networking revenues showed healthy year-over-year growth, driven by the strength of our product portfolio and improved sales execution. Total revenue in the second quarter was $539M, which was down slightly from Q2 12 and down 8% sequentially.

Coming off of record SAN revenues in Q1, SAN revenue was $319M in Q2, down 7% year-over-year and down 12% quarter-over-quarter. We were disappointed in our storage area networking sales in the second quarter due to short-term slowing in the storage market and execution challenges at a couple of our large OEM partners. These challenges have been well documented in recent headlines from partners, peers, and competitors. Q2 is typically a softer quarter for demand of SAN products, but our results were impacted by these additional factors, which exacerbated the normal seasonality. Despite the current environment, I believe that the longer-term market opportunity for our SAN products continues to be favorable, supported by the fact that Brocade Gen 5 Fibre Channel products exceeded 50% of our shipments of directors and switches in the quarter. I'll discuss the SAN business in more detail in the next section.

IP networking product revenue was $133M, up 17% year-over-year, driven primarily by growth in our campus LAN business from new product offerings and better sales execution. We also saw higher routing sales as well as the success of our Ethernet fabric products. In fact, Q2 Brocade VDX revenue was more than $65M on an annualized run-rate, up approximately 80% from Q2 12. Sequentially, IP networking product revenue was down 6% on lower revenue of Brocade ADX products and seasonally lower Federal revenue.

Our continuing focus on increasing profitability and improving cash flow enabled us to achieve operating results in line with our original expectations for the quarter. Q2 Non-GAAP operating margin was 19%, an increase of 40 basis points from the prior year and non-GAAP EPS was $0.17, up 2 cents year-over-year.

While I am pleased that we were able to increase profitability in a challenging storage environment in Q2, I believe we can do better in driving top-line growth as well as profitability. Following a thorough inspection of the business during my first four months as CEO, I believe that Brocade is well-positioned to be a leader in the new era of networking. To do so, we need to be more focused as a company and we need to deliver consistent, profitable growth to increase shareholder value. I will begin to lay out my strategy for the business today and will provide more details of my plans over the next several months. My goal is to begin our fiscal 2014 with our people, processes, and products in place to enable us to deliver consistent growth in both revenue and profits. Before I go into more specifics about the future, I want to first review the quarter's performance in more detail.



Despite the challenging near-term environment, we believe that the fundamentals of the SAN market are strong, including storage growth related to virtualization, cloud, and unstructured data. We are pleased to see the continued transition to our Gen 5 Fibre Channel products, now representing more than 50% of director and switch revenue in Q2. Our customers understand the benefits of the new technology and value-added features only realized with our Gen 5 portfolio. In 21 months since their launch, our Gen 5 director products now represent more than 70% of total director revenue, demonstrating Brocade's clear leadership in 16 Gbps technology in the market.

We expect that our Fibre Channel business will continue to deliver profitable revenue growth and strong cash flow for years to come. During Q2, we strengthened our product portfolio with Brocade Fabric Vision technology that provides our customers unprecedented levels of visibility and insight into the storage network. We also launched the Brocade 6520 96-port switch that expands our industry-leading portfolio of Gen 5 Fibre Channel modular, fixed-port, and embedded solutions. We also affirmed our commitment to Gen 6 Fibre Channel (32 Gbps+), leveraging our current market position with nearly a two-year lead over competitive solutions.

One of the keys to our success in the SAN market is the ecosystem of OEM partners. In Q2 we enhanced these partnerships with several announcements related to Gen 5 Fibre Channel technology and SAN management advancements, namely:

- At EMC World, Brocade announced support for EMC's "Software-Defined Storage" initiative by making the Brocade Gen 5 Fibre Channel portfolio interoperable with the EMC ViPR Software-Defined Storage Platform;
- We announced that the new Brocade 6520 Switch and Brocade Network Advisor 12.0 are now generally available through Dell, EMC, Fujitsu, HDS, HP, and NetApp;
- Dell announced the availability of its Dell Compellent SC8000 Storage Controller, becoming the first in the industry to offer a complete 16-Gbps Fibre Channel solution from servers, to switches and storage.

IP Networking Momentum

Healthy growth across portfolio

ETHERNET FABRIC

- More than 1,100 Brocade VDX customers
  - SunGard announced as the 1000th customer
  - Repeat customers up more than 60% Qtr./Qtr.
- $65M annualized run rate

CAMPUS NETWORKING

- Campus LAN revenue up 30% Yr./Yr. with refresh of the campus portfolio
- Brocade HyperEdge Architecture now available

ROUTING

- Brocade 100 GbE up more than 50% Yr./Yr.
- Q2 launches:
  - Brocade MLXe 40 GbE module
  - Brocade NetIron CER 2000 Series Router
  - Brocade Vyatta vRouter

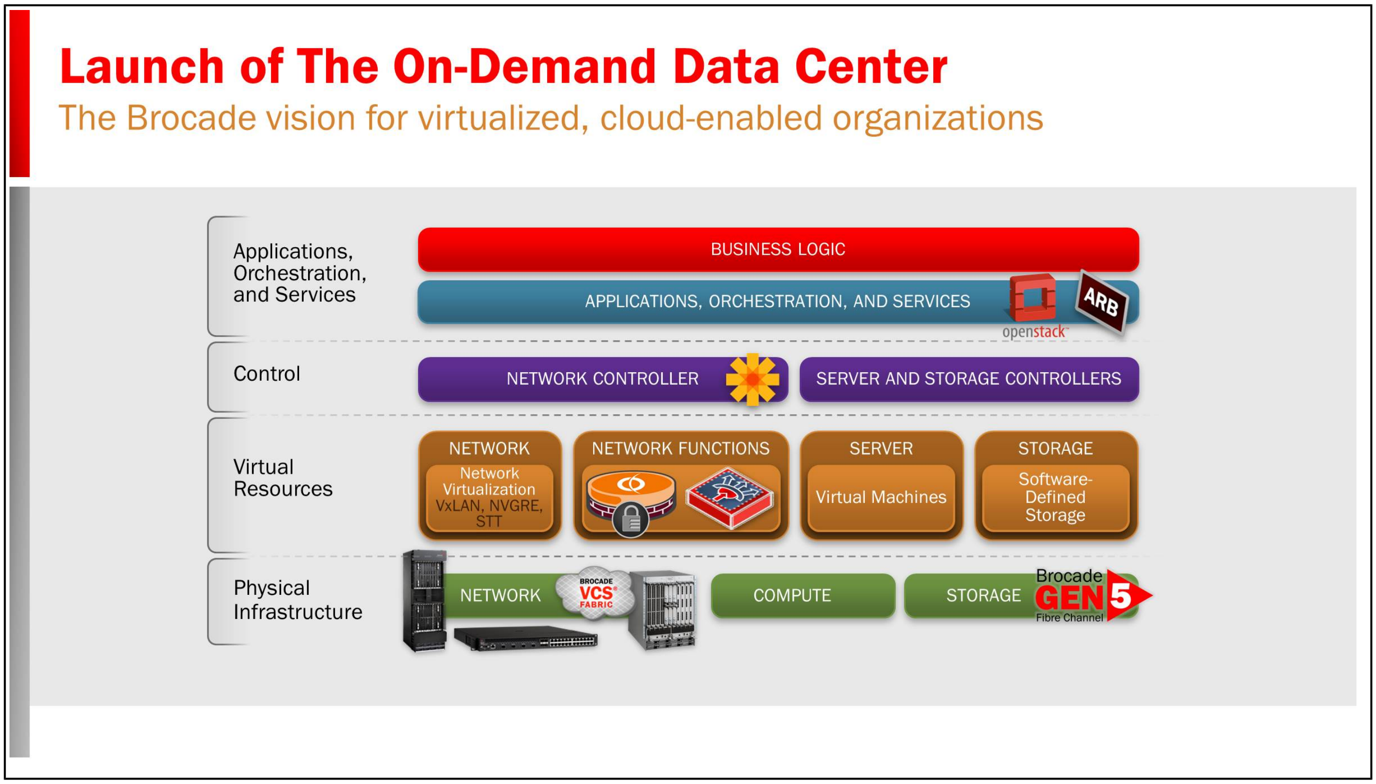
Turning to our IP Networking business, product revenue was $133M, up 17% year-over-year and down 6% quarter-over-quarter. Our strong year-over-year performance was driven by success of our Ethernet fabric products, growth in revenue contribution from our refreshed campus LAN portfolio, increased routing sales, and improved sales execution. The sequential decline in revenue was primarily due to lower Brocade ADX product sales as they returned to a more normal level following a large conversion of Brocade Network Subscription business to product revenue in Q1.

While our sales into the Federal market were seasonally lower than Q1, we saw healthy growth year-over-year. This was largely due to the fact that our campus LAN products are now more broadly marketed and our Federal team and channel partners have been effective in closing opportunities in this strategic customer segment.

During the second quarter, we delivered our innovative Brocade HyperEdge™ Architecture, which automates and simplifies the campus network, creating a holistic wired and wireless infrastructure. The general availability of this technology completes the portfolio of campus LAN products and solutions announced last year.

Ethernet fabric sales continue to grow and we now have more than 1,100 Brocade VDX customers, which is double the number of customers from just a year ago. We are pleased to announce one such customer, SunGard, that chose Brocade VCS Fabric technology for its automation features and to support fast-growing virtualized workloads in its data center, a challenge shared by many of our Brocade VDX customers. In addition to our growing base of new customers, we are also pleased to report that the number of repeat Brocade VDX customers was up 60% in the quarter. The continued healthy adoption of our Ethernet fabric technology highlights its strength in providing an optimal foundation for server virtualization and cloud architectures, as well as future deployment of software-defined networking (SDN) elements.

Brocade also saw growth in shipments of its routing portfolio, including more than 50% year-over-year growth of our 100 GbE modules that are being used in high-performance data center-to-data center connectivity as well as SDN deployments. In Q2, we enhanced our routing portfolio with the announcements of the Brocade Vyatta vRouter, 40 GbE options for the Brocade MLXe, and the Brocade NetIron CER 2000.



Brocade has been a leader in the area of software-defined networking and we continue to advance our strategy and product portfolio. Along these lines, last month we launched our vision for The On-Demand Data Center that unites the best aspects of virtual and physical networking across an open orchestration framework. This architecture will enable customers to rapidly deploy new applications and services through a highly flexible and simplified network structure. As part of this launch, we announced a number of software and hardware innovations including a Brocade plug-in for OpenStack Cloud Orchestration.

Underscoring our leadership and commitment to open standards, Brocade announced its participation as a founding member of the OpenDaylight SDN Consortium. OpenDaylight provides a standard framework that customers can leverage to build their SDN strategies. It will also enable Brocade customers to simplify the orchestration of key infrastructure and services, providing a truly on-demand data center. The community-led, industry-supported open source framework, consisting of code and architecture, will help rapidly enable and advance an ecosystem surrounding SDN.

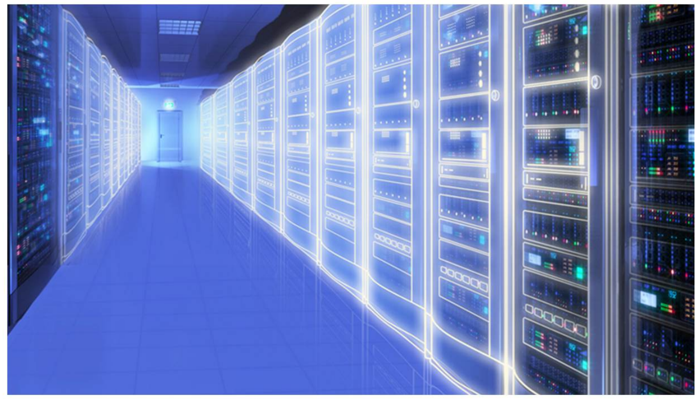
We were pleased to announce that Dave Meyer, Brocade's service provider business chief technology officer and chief scientist, was named chairman of the technology steering committee of the OpenDaylight project with the goal of creating an open source SDN framework. Dave has long been a visionary in the area of software-defined networking and his appointment demonstrates Brocade's own commitment to leadership in this important emerging space.

In total, The On-Demand Data Center launch highlights a vision that we at Brocade share with other data center thought leaders. It is characterized by the ability to flexibly deploy data center capacity—compute, networking, storage, and services in real-time. Further, it reflects our focus on data center networking, where we can best leverage our strengths and take advantage of the growing business opportunities.

Focused Strategy for Long-term Success

Leveraging our strengths in key customer markets

- Increasing data center presence through:
  - Storage networking for virtualization
  - Ethernet fabrics
  - Data center routing
- Targeting large federal market with campus networking strategy
- Leading market transition in software networking/SDN and cloud orchestration
- Organizational alignment to execute strategy



Following a thorough inspection of the business during my first four months as CEO, I believe that Brocade is well-positioned to be a leader in the new era of networking. My review of the business included discussions with customers, partners, investors, and of course our employees. During the quarter, I met with more than 40 of the leaders of our company in a comprehensive strategy session, where we examined our company's long-term plans in detail. Coming out of that meeting, the team and I agreed that we need to be more focused as a company and we need to deliver consistent, profitable growth to increase shareholder value. I will begin to lay out my strategy today and will provide more details of my plans over the next several months.

While I believe that our fundamental direction has been sound, we are evolving and adapting our business strategy to markets where we have been and can continue to be most successful. This means focusing on the data center networking opportunity for highly virtualized, cloud-enabled enterprises and service providers. The three key technology segments in which our core competencies and competitive advantages have positioned us for success are:

- SAN fabrics for virtualized data centers
- Ethernet fabrics and routing for virtualized data centers
- SDN, network virtualization, and software networking technologies and markets

Going forward, we will focus on markets in which we can be most successful and where we can hold a leading market share position of meaningful size. We have significant market share in the data center, and we will continue to invest here to expand our installed base in SAN and to grow our footprint in data center Ethernet. We will be focused on delivering on our vision for The On-Demand Data Center with more software-rich offerings, such as the Brocade vRouter, Brocade Virtual ADX, and SDN-ready products. We will also focus on large market opportunities, such as the federal vertical. As the federal government looks to reduce spending and improve efficiencies in its networks, they will look for innovative products and solutions with a compelling ROI like Brocade Ethernet fabrics, Brocade SANs, and our refreshed campus LAN products to meet their needs. We believe that by focusing on this large opportunity and the requirements of the federal vertical, we will be able to provide significant value-add to this market segment while leveraging our investment across other campus LAN customers who have similar needs.

To support the execution of our strategy for 2013 and beyond, I am excited about the organizational changes and alignment on my executive team. We have done extensive searches to fill two vacancies and I am pleased by the quality of talent we have been able to attract. During the second quarter, we welcomed Jeff Lindholm as senior vice president of Worldwide Sales. Jeff's extensive experience and knowledge of the networking space will be highly beneficial in executing against both our current opportunities and future direction. I hope to have an announcement on a new Chief Marketing Officer soon. We have also made organizational changes to better align our product management and sales teams to focus on the key markets and customers to support our strategy.

Driving Shareholder Value

- Increase profitability
  - Focusing investment on high-ROI opportunities
- Manage expenses
  - Maintaining financial discipline to long-term operating model
- Improve cash flow
  - Returning cash to shareholders through an active share repurchase program

We believe that narrowing our focus of our business to key technology areas and aligning our team accordingly will allow us to better realize efficiencies in our business. With a commitment to increasing profitability, managing expenses, and improving cash flow, we believe we can increase shareholder value. We have already started to see the benefits of this strategy with improving margins in IP Networking as well as overall operating margins this quarter. The year-over-year growth in Federal and Ethernet fabric revenue in Q2 helped to increase IP Networking gross margins with a more favorable mix of products. We were also able to control operating expenses to maintain our operating margin expectations in the quarter on lower revenue. I believe there is more that we can do to improve our operating model and I look forward to sharing my plans in the upcoming months.

Finally, as we drive higher profitability and improved cash flow, we are committed to returning cash to shareholders in the most efficient manner, which I currently believe is through an active share repurchase program. We will continue to allocate a significant amount of our cash flow to our share repurchase program with the goal of reducing the number of shares outstanding. During Q2 we repurchased $39M of stock, or 6.8M shares, and so far in Q3 13, we have already repurchased another $51M of stock, or 9.3M shares. I expect to work with the Board to maintain a regular program of returning cash to shareholders.

Q2 2013 Summary

Leading the new era of networking

- Q2 highlights:
  - Increased profitability in challenging macro environment
  - Solid execution on new product offerings
- Focused strategy in place
- Organizational alignment
- Driving shareholder value

In conclusion, this is an exciting time for Brocade. We continue to execute well on delivering a world-class portfolio of software and hardware products for data center networking. Our leadership in strategic technologies, such as data center fabrics, 100 GbE routing, and software-defined networking has positioned us with a solid presence in key emerging areas. We believe that we are ready to seize the opportunity in front of us and I look forward to sharing more with you about our specific plans and accomplishments in the months to come.

Fiscal 2013: Q2 Financials

Dan Fairfax, CFO

Prepared comments provided by Dan Fairfax, CFO

Key Financial Metrics

	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q2 13 Qtr./Qtr.	Q2 13 Yr./Yr.
Revenue	$543M	$555M	$578M	$589M	$539M	-8%	-1%
SAN product revenue	$343M	$321M	$339M	$362M	$319M	-12%	-7%
IP Networking product revenue	$113M	$146M	$152M	$141M	$133M	-6%	+17%
Global Services revenue	$87M	$88M	$87M	$86M	$87M	+1%	0%
Non-GAAP gross margin*	64.8%	63.7%	64.8%	66.0%	65.1%	-0.9 pts	+0.3 pts
Non-GAAP operating margin*	18.6%	19.5%	22.5%	23.5%	19.0%	-4.5pts	+0.4 pts
GAAP EPS—diluted	$0.08	$0.09	$0.11	($0.05)	$0.10	N/A	+22%
Non-GAAP EPS—diluted*	$0.15	$0.14	$0.17	$0.21	$0.17	-22%	+10%
Operating cash flow	$140M	$113M	$210M	$59M	$120M	+101%	-15%
Net cash/(net debt)(1)	($131M)	($54M)	$108M	$78M	$159M	+104%	N/A

1) Q1 2013 excludes restricted cash of $312M and 2018 notes of $300M that had been called in Q1 and were redeemed on February 21, 2013

*Non-GAAP, please see GAAP reconciliation in appendix

In Q2 13 Brocade reported revenue of $539M, a decrease of 1% Yr./Yr. and down 8% Qtr./Qtr., which is consistent with the guidance range we provided on May 1st. As we look at our business by reporting segment, Q2 SAN product revenue was $319M, a decrease of 7% Yr./Yr. primarily due to order rate softness in the storage array market that impacted some of our OEM partners. SAN product revenue was down 12% sequentially, more than normally expected in a seasonally softer quarter. SAN product revenue represented 59% of total revenue, down from 61% in Q1 13 and 63% reported in Q2 12.

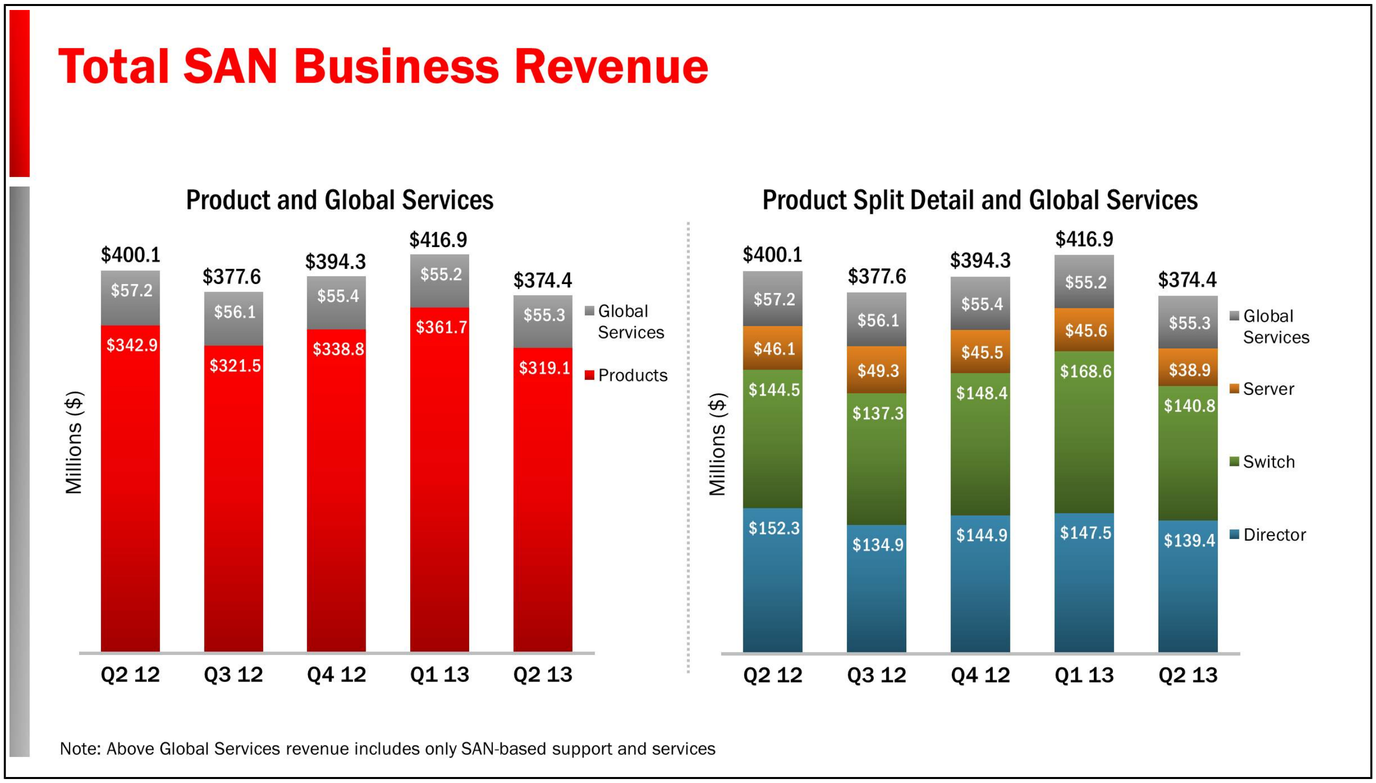
Revenue from our IP Networking products was $133M, up 17% Yr./Yr. and down 6% Qtr./Qtr. The year-over-year increase was driven by higher revenues for Ethernet switching, routing, and Brocade VDX products. The quarter-over-quarter decline was due to lower Brocade ADX product sales and federal campus LAN product sales. IP Networking product revenue represented 25% of total revenue in Q2, up from 24% in Q1 13 and up from 21% in Q2 12.

Q2 Global Services revenue was $87M, down slightly year-over-year and up slightly sequentially. Our Global Services revenue represented 16% of total Q2 revenue, unchanged from Q2 12 and up slightly from Q1 13.

Non-GAAP gross margin was 65.1% in Q2, up 30 basis points from Q2 12 and down 90 basis points from Q1 13. The year-over-year improvement in gross margin was due primarily to a more favorable mix within our Ethernet products. The sequential decrease in gross margin was due in part to lower revenues and a lower contribution from our relatively more profitable SAN products. Non-GAAP operating margin was 19.0% in Q2, up 40 basis points from Q2 12 and down 450 basis points Qtr./Qtr. due to lower revenue.

Q2 GAAP diluted EPS was $0.10 and non-GAAP diluted EPS was $0.17 in the quarter, both up $0.02 year-over-year. We saw a benefit in our Q2 tax rate from the closure of IRS tax audits for the years 2006 and 2007 resulting in a more favorable rate, which benefited our EPS by approximately $0.02 in the quarter. The resulting effective GAAP tax benefit rate was (0.4)% and the effective non-GAAP tax rate was 15.9% in Q2.

In Q2 we generated $120M in operating cash flow. Weighted average diluted shares outstanding in Q2 was 467M and the company repurchased 6.8M shares for $39M during the quarter.



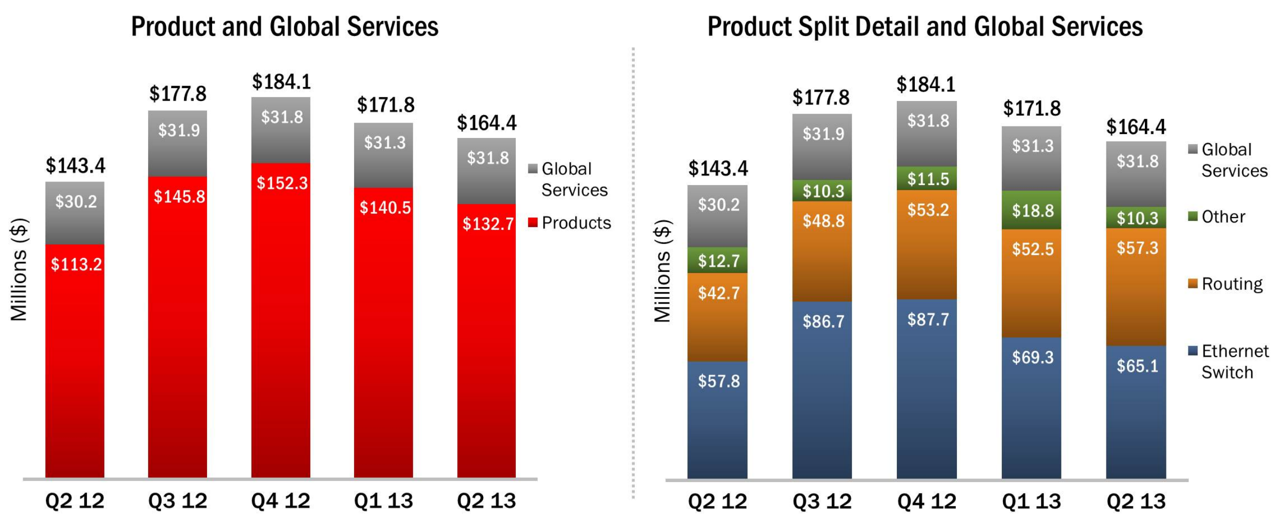
Turning to our total SAN business, including hardware and SAN-based support and services, Q2 revenue was $374.4M, down 6% from Q2 12 and 10% sequentially.

Following a record SAN quarter, we saw a softer-than-expected storage demand environment quickly develop in our fiscal second quarter, which is typically a seasonally soft quarter for SAN. This lower demand and execution issues impacted the SAN purchases by some of our OEM partners during the quarter. However, we saw the expansion of our Gen 5 (16 Gbps) Fibre Channel product revenue as more of our customers continued to upgrade their networking infrastructure. In Q2, our Gen 5 products represented more than 50% of director and switch revenue compared with 42% in Q1 13 and 23% in Q2 12.

SAN product revenue was $319.1M in the quarter, down 7% Yr./Yr. and 12% sequentially. In looking at the SAN product families, director revenue was down 8% Yr./Yr. and 6% sequentially, while switch revenue was down 3% Yr./Yr. and 17% Qtr./Qtr. Our Server product group, including embedded switches and server adapter products, posted revenue of $38.9M, down 16% Yr./Yr. and 15% Qtr./Qtr. The Server product group is more correlated to bladed server chassis sold through our OEM partners.

SAN-based support and services revenue was $55.3M in the quarter, down 3% Yr./Yr. and unchanged quarter-over-quarter.

Total IP Networking Business Revenue



Note: Above Global Services revenue includes only IP Networking-based support and services

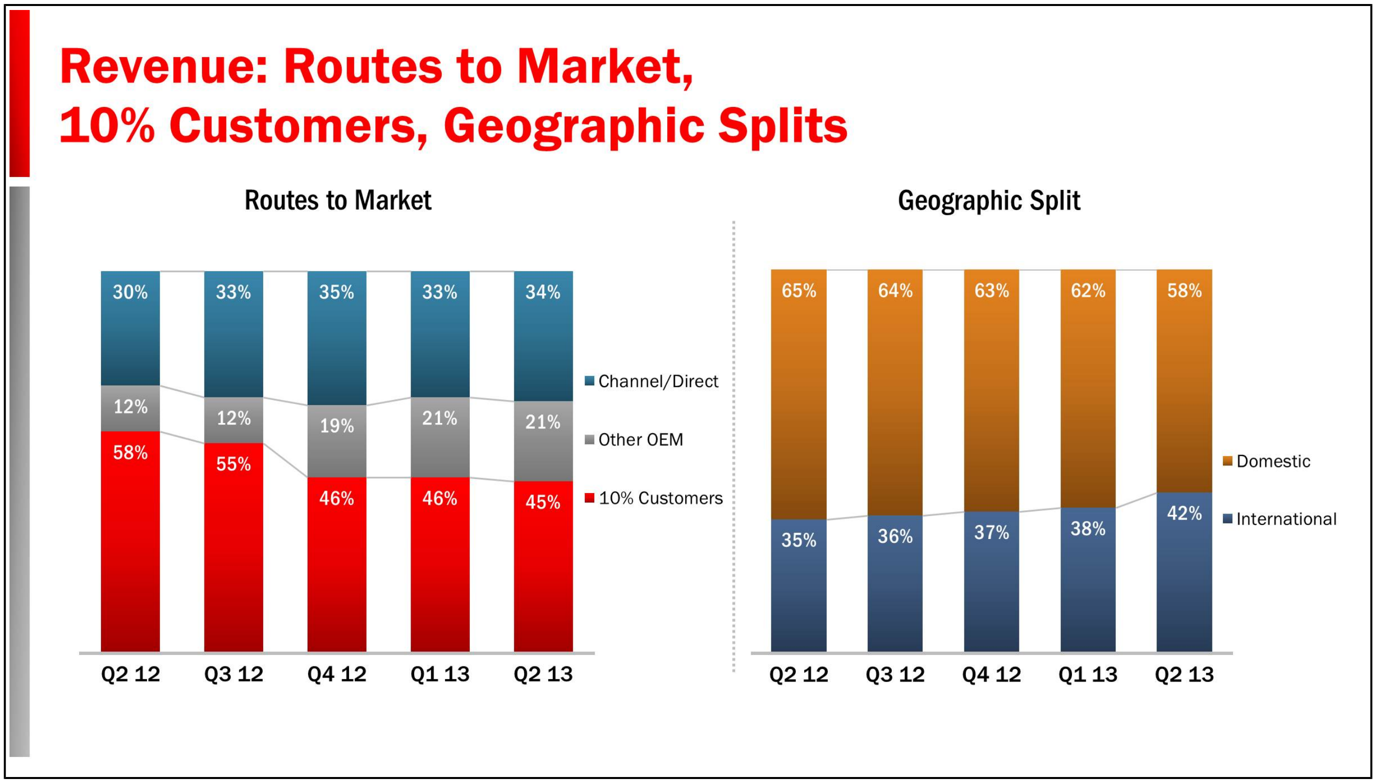
Moving on to our total IP Networking business, including hardware and support, Q2 revenue was $164.4M, up 15% Yr./Yr. and down 4% sequentially.

Q2 IP Networking product revenue was $132.7M, up 17% Yr./Yr. and down 6% Qtr./Qtr. As we look at the product splits for IP Networking in the quarter, we saw good year-over-year performance for our Ethernet switch products and routing products. Ethernet switch products, which include products for the data center and campus LAN environments, generated $65.1M in revenue, up 13% Yr./Yr. We saw continued revenue growth with the Brocade ICX campus product portfolio, which was launched in fiscal 2012, as well as good year-over-year performance with our Ethernet fabric switches. Ethernet switch revenue was down 6% Qtr./Qtr., principally due to lower revenues from our federal customers in a seasonally soft quarter for this vertical.

Routing revenue of $57.3M was up 34% Yr./Yr. and 9% sequentially. The year-over-year increase in routing revenue was driven in part by a higher number of Brocade MLX units sold as well as a mix to more 100 GbE blades. Other IP Networking revenue of $10.3M was down 19% Yr./Yr. and down 45% Qtr./Qtr. on decreased Brocade ADX sales. As we noted in our Q1 earnings report, we had a sizable conversion of Brocade Network Subscription business to product sales that occurred in Q1 13. This conversion caused our Other IP Networking revenue to be significantly higher than normal in Q1 and our results this quarter are more in line with what we typically see. IP Networking-based support and services revenue was $31.8M in the quarter, up 5% Yr./Yr. and slightly higher sequentially.

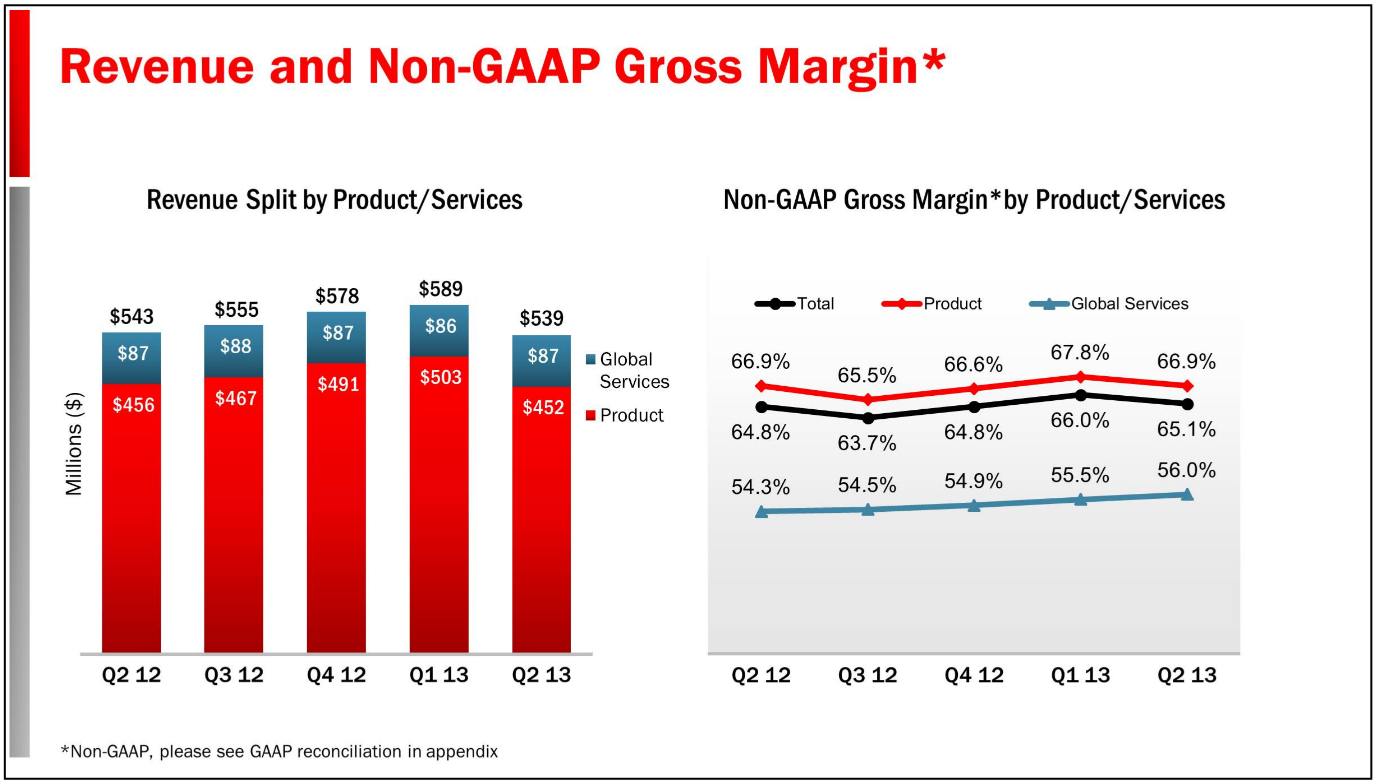
As we have mentioned over the last several quarters, with more of our IP Networking products sold through our two-tier distribution channel, it has become more difficult to identify the customer split of the end users. To estimate the customer split, we leverage the information reported to us from our channel partners as well as our internal sales funnel. From an estimated customer segment standpoint, our Federal business revenue of $20.9M was up nearly 28% Yr./Yr. and down sequentially as Q2 is a seasonally soft procurement quarter for our federal customers. Q2 Service Provider business revenue of $62.9M was up 25% year-over-year and 2% sequentially, while our Enterprise business revenue of $80.6M was up 5% Yr./Yr. and flat quarter-over-quarter.

From a geographic viewpoint, the U.S., EMEA, APAC and Japan regions each had double-digit growth for IP Networking year-over-year, while Canada/South America was lower. On a sequential basis, the U.S. was down 9%, APAC and Japan were each up over 10%, and EMEA was down slightly.



In Q2, three of our customers (EMC, HP, and IBM) each contributed at least 10% of the total company revenue. Our 10% customers collectively contributed 45% of revenue in Q2, down slightly from 46% in Q1 13 and down from 58% in Q2 12 when HDS was also a 10% customer. All other OEMs represented 21% of revenue in Q2, unchanged from Q1 13 and up from 12% in Q2 12 when HDS was a 10% customer. Channel and direct routes to market contributed 34% of revenue in Q2, slightly up from Q1 13 and up from 30% in Q2 12.

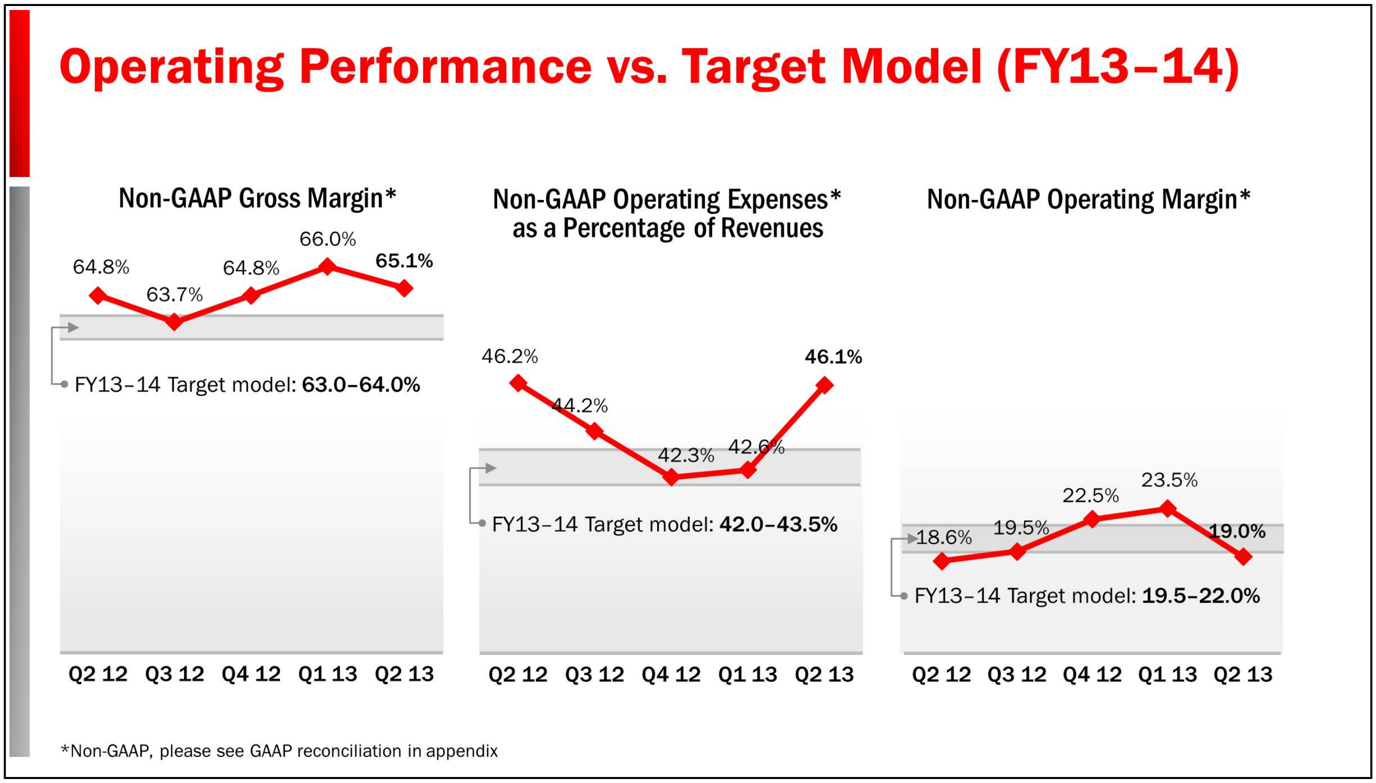
The mix of business based on ship-to location was 58% domestic and 42% international in the quarter, a lower domestic split compared with 65% in Q2 12, reflecting lower SAN revenue that was sold into the U.S. market. Revenues in the Americas (including Canada/South America) as well as APAC were lower year-over-year while EMEA and Japan were both higher. Since some of our OEMs take delivery of our products domestically and then ship internationally to their end-users, the percentage of international revenue based on end-user location would be higher.



Q2 non-GAAP company gross margin of 65.1% exceeded our original guidance range of 64.0% to 64.5% for the quarter due in part to a more favorable product mix within the SAN and IP Networking segments.

Q2 non-GAAP product gross margin was 66.9%, at the high-end our two-year target model range of 65% to 67%, but down from 67.8% in Q1 13 primarily due to a higher mix of IP Networking products and lower SAN volumes. Q2 non-GAAP SAN product gross margin was in the mid-70's, down approximately 100 basis points compared with Q1 13 and approximately 150 basis points compared with Q2 12 on lower revenues. Q2 non-GAAP IP Networking product gross margin was over 50%, up slightly quarter-over-quarter and up approximately 850 basis points compared with Q2 12 due to higher volumes, a favorable product mix, and lower COGS spending.

Non-GAAP Global Services gross margin was 56.0% in Q2, up 50 basis points quarter-over-quarter and up 170 basis points year-over-year based on lower spending.



Q2 non-GAAP gross margin was 65.1%, above our two-year target model range of 63% to 64%, driven by a favorable product mix.

On a non-GAAP basis, total operating expenses were $248.2M, or 46.1% of revenues in Q2, above our two-year target model range of 42.0% to 43.5%. Total operating expenses were slightly lower on an absolute dollar basis compared with Q1 13. Operating expenses on a dollar basis decreased slightly quarter-over-quarter as well as year-over-year. Ending headcount was 4,648 in Q2, slightly higher than the prior quarter.

Non-GAAP operating margin was 19.0% in Q2, an increase of 40 basis points compared with Q2 12 and lower compared with Q1 13. The Q2 non-GAAP operating margin was slightly below the two-year target model range of 19.5% to 22.0%, as a result of lower revenues than expected.

Balance Sheet and Cash Flow Highlights

As of April 27, 2013

	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13	Q2 13 Qtr./Qtr.	Q2 13 Yr./Yr.
Operating cash flow	$140M	$113M	$210M	$59M	$120M	+101%	-15%
Capital expenditures	$21M	$18M	$17M	$18M	$13M	-29%	-37%
Free cash flow	$119M	$95M	$194M	$41M	$107M	+160%	-11%
Debt payments (excl. Q1 13 bond refinance)	$50M	$40M	$30M	$0M	$0M	0%	-100%
Cash, equivalents, and short-term investments(1)	$545M	$581M	$713M	$684M	$764M	+12%	+40%
Senior debt and capitalized leases(1)	$676M	$635M	$605M	$605M	$605M	0%	-10%
Adjusted EBITDA*	$123M	$131M	$153M	$162M	$120M	-26%	-2%
Stock repurchase	$25M	$45M	$60M	$48M	$39M	-19%	+54%
Days sales outstanding	36.5	37.9	36.7	33.5	40.4	+21%	+11%
Inventory turnover (annualized)	10.1	11.6	12.8	13.4	15.5	+16%	+53%
Cash conversion cycle (days)	27.5	20.5	17.0	17.5	19.4	+11%	-29%

1) Q1 2013 excludes restricted cash of $312M and 2018 notes of $300M that had been called in Q1 and were redeemed on February 21, 2013

*Adjusted EBITDA is as defined in the term debt credit agreement

Operating cash flow was $120M in Q2, down 15% Yr./Yr. and up more than 100% sequentially. We typically see higher cash from operations in our fiscal second quarter as Q1 includes the payment of sales commissions and employee variable compensation earned in the prior year as well as the semi-annual payment of the interest on our outstanding notes. We saw slightly worse shipment linearity in the quarter, which resulted in DSOs of 40.4 days, consistent with our long-term DSO model of 40 to 45 days, but up from 36.5 days in Q2 12. Total capital expenditures in the quarter were $13M, below our typical capital spending range due to the timing of some projects that moved outside of the quarter.

Excluding restricted cash, our cash, equivalents, and short-term investments were $764M, up $81M from Q1 13 and up $219M from Q2 12. During the quarter, we paid the $300M principal, associated call premium, and interest earned on February 21, 2013 of the 2018 notes that were previously called in January as part of a refinancing of the notes. For comparison purposes, we are excluding the restricted cash that was used to retire the 2018 notes as well as the corresponding short-term notes payable in this presentation for Q1 13. This will make the comparisons for cash and debt more meaningful as we were in the process of paying off the 2018 notes with the proceeds from the 2023 notes as of the end of Q1.

As I mentioned earlier, we repurchased 6.8M shares of common stock during Q2 and had $462M remaining in the Board authorized share repurchase program exiting the quarter.

Finally, during the quarter we won one case of alleged patent infringement and settled two other long-running patent claims for a fair price that removed the potentially expensive litigation risk and resulted in Brocade having broad licenses to the technology.

Q3 2013 Planning Assumptions and Outlook

PLANNING ASSUMPTIONS

IT market conditions
- Uncertainty around macro economic conditions (storage market, U.S. federal spending, Europe)

Brocade business expectations:
- SAN to be down 8% to 11% Qtr./Qtr.
- IP Networking to be up 3% to 11% Qtr./Qtr.
- Operating expense will be down slightly sequentially
- Structural tax rate of 27% to 29%

EPS
- Outlook includes completed Q3 share repurchases

OEM inventories
- Expect inventories within a range of one to two weeks of supply

*Non-GAAP, please see GAAP reconciliation in appendix

OUTLOOK	Q3 2013
Revenue range	$510M–$530M
Non-GAAP gross margin*	63.7%–64.2%
Non-GAAP operating expenses*	~$245M
Non-GAAP operating margin*	15.9%–17.8%
Other income/other expense	~($10M)
Non-GAAP tax rate*	27%–29%
Fully diluted shares outstanding	460M–465M
Non-GAAP EPS*	$0.11–$0.13
Operating cash flow	$60M–$80M
Capital expenditures	$16M–$18M
Free cash flow	$44M–$62M

Looking forward to Q3 13, we considered a number of factors, including the following, in setting our outlook:

- The current macro environment and economy continue to show uncertainty in the near-term, specifically in the storage market, the U.S. federal government, and in Europe.
- For Q3, we expect SAN revenue to be down 8% to 11% quarter-over-quarter as the current demand for storage remains soft. Our OEM partners are expecting a return to growth in storage during the 2nd half of calendar 2013 and we believe our SAN business will see this benefit outside of our fiscal Q3.
- We expect our Q3 IP Networking revenue to be up 3% to 11% quarter-over-quarter driven by improved U.S. federal orders as well as continued growth of IP Networking revenue from new products including Ethernet fabrics.
- We expect non-GAAP operating expenses to be down 1% to 2% quarter-over-quarter, reflecting some lower spending as we focus our efforts towards the data center, federal, and certain campus LAN opportunities.
- At the end of Q2, OEM inventory was about two weeks of supply based on SAN business revenue, above the inventory levels exiting Q1 13. While we expect inventory to be reduced during Q3, OEM inventory levels may fluctuate due to both seasonality and large end-user order patterns at the OEMs.
- From a tax rate perspective, we assume a structural non-GAAP tax rate of 27% to 29% for the remainder of FY13. Discrete events can impact our tax rate from time to time.
- Our guidance reflects the share repurchases already completed in Q3.
- Cash from operations will be down slightly sequentially. As a reminder, our cash from operations in Q3 will be lower due to the semi-annual interest payment on our notes as well as our mid-year progress payment on employee variable compensation earned in FY13 to date.
- Based on the company's performance in Q2 and the outlook for Q3, we expect full-year FY13 gross margin to be nearly 65%, above the two-year target model range of 63% to 64%, and FY13 operating margin to be at the low-end to middle of the two-year target model range of 19.5% to 22.0%.

Prepared Comments and Live Conference Call

May 16, 2013, 2:30pm

Lloyd Carney
CEO

Dan Fairfax
CFO

Jeff Lindholm
Sr. VP of Worldwide Sales

Jason Nolet
VP of Data Center Networking

Prepared comments provided by Rob Eggers, Investor Relations

That concludes Brocade's prepared comments. At 2:30 p.m. Pacific Time on May 16, Brocade will host a webcast conference call at www.brcd.com.

Thank you for your interest in Brocade.

Appendix

Quarterly Net Income (Loss) GAAP/Non-GAAP Reconciliation

(In $1,000s)	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Net income (loss) on a GAAP basis	**$39,296**	**$43,300**	**$54,001**	**($21,255)**	**$46,949**
Gross margin adjustments:					
Stock-based compensation	4,596	3,074	3,388	3,946	3,541
Amortization of acquired intangibles	10,713	10,713	10,713	10,780	9,651
Legal recovery associated with certain pre-acquisition litigation	–	(414)	–	–	–
Provision associated with certain pre-acquisition litigation	–	–	–	–	3,460
Total gross margin adjustments	**15,309**	**13,373**	**14,101**	**14,726**	**16,652**
Operating expense adjustments:					
Stock-based compensation	19,262	9,995	15,035	15,204	15,631
Amortization of acquired intangibles	14,737	14,737	14,737	14,856	13,151
Legal recovery associated with indemnification obligations and other related costs, net	–	–	(89)	–	–
Total operating expense adjustments	**33,999**	**24,732**	**29,683**	**30,060**	**28,782**
Total operating income adjustments	**49,308**	**38,105**	**43,784**	**44,786**	**45,434**
Call premium cost and original issue discount and debt issuance costs related to lenders that did not participate in refinancing	–	–	–	15,299	–
Tax provision Impact from passage of California Proposition 39 - Single Sales Factor apportionment	–	–	–	78,206	–
Income tax effect of non-tax adjustments	(16,380)	(14,012)	(19,443)	(18,287)	(14,814)
Non-GAAP net income	**72,224**	**67,393**	**78,342**	**98,749**	**77,569**

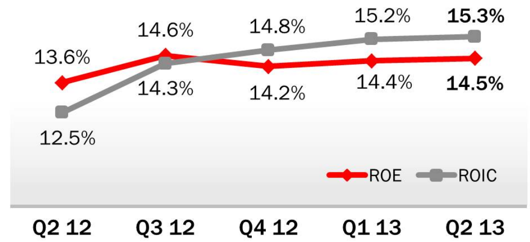
Additional Financial Information:

	Q2 12	Q1 13	Q2 13
GAAP gross margin	62.0%	63.5%	62.0%
Non-GAAP gross margin	64.8%	66.0%	65.1%
GAAP product gross margin	64.0%	65.3%	63.6%
Non-GAAP product gross margin	66.9%	67.8%	66.9%
GAAP services gross margin	51.7%	53.3%	54.0%
Non-GAAP services gross margin	54.3%	55.5%	56.0%
GAAP operating margin	9.5%	15.8%	10.6%
Non-GAAP operating margin	18.6%	23.5%	19.0%

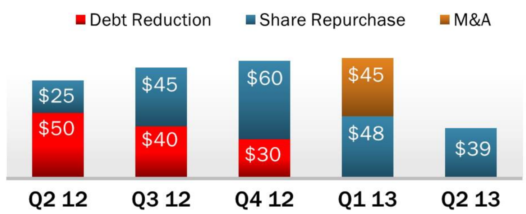
Q2 2013 Cash and Other Key Metrics

Adjusted EBITDA* Performance
(In Millions)

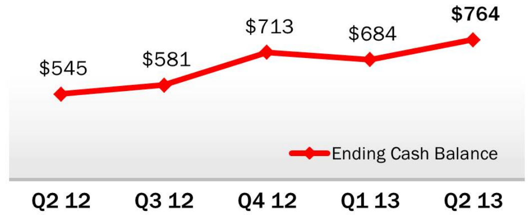
Non-GAAP Return on Equity and Invested Capital**



Non-Operational Uses of Cash
(In Millions)



Cash Balance***
(In Millions)



*Adjusted EBITDA is as defined in the term debt credit agreement
***Cash, equivalents, and short-term investments (excl. restricted cash)

**Non-GAAP, please see GAAP reconciliation in appendix;
ROE and ROIC calculations based on trailing 12 months

Debt Covenant Ratios

As of April 27, 2013

	Q2 12	Q3 12	Q4 12	Q1 13	Q2 13
Senior secured leverage ratio	1.37x	1.20x	1.11x	1.07x	1.07x
Covenant	*2.25x*	*2.25x*	*2.25x*	*2.00x*	*2.00x*
Fixed charge coverage ratio	3.48x	4.83x	5.48x	5.33x	5.56x
Covenant	*1.75x*	*1.75x*	*1.75x*	*1.75x*	*1.75x*

BROCADE

Thank You

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