

## — PARTICIPANTS

### Corporate Participants

**Robert Eggers** – Vice President-Investor Relations  
**Lloyd A. Carney** – Chief Executive Officer & Director  
**Daniel W. Fairfax** – Chief Financial Officer & Vice President  
**Ken K. Cheng** – Vice President-Service Provider Products  
**Jason Nolet** – VP-Data Center & Enterprise Networking  
**David B. Stevens** – CTO & Vice President-Corporate Development

### Other Participants

**Jayson Noland** – Analyst, Robert W. Baird & Co. Equity Capital Markets  
**Mark Sue** – Analyst, RBC Capital Markets LLC  
**Aaron C. Rakers** – Analyst, Stifel, Nicolaus & Co., Inc.  
**Jess Lubert** – Analyst, Wells Fargo Advisors LLC  
**Andrew J. Nowinski** – Analyst, Piper Jaffray, Inc.  
**Keith F. Bachman** – Analyst, BMO Capital Markets (United States)  
**James F. Hillier** – Analyst, UBS Securities LLC  
**Mark A. Moskowitz** – Analyst, JPMorgan Securities LLC  
**Matthew S. Robison** – Analyst, Wunderlich Securities, Inc.  
**Scott Schmitz** – Analyst, Morgan Stanley & Co. LLC  
**Erik L. Suppiger** – Analyst, JMP Securities LLC

## — MANAGEMENT DISCUSSION SECTION

Operator: Good day ladies and gentlemen, thank you for standing by. Welcome to Brocade's first quarter 2013 earnings conference call. Currently, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. As a reminder this conference call is being recorded. And now I would like to turn the program over to our speaker, Robert Eggers, Vice President of Investor Relations with Brocade. Sir, please go ahead.

### Robert Eggers, Vice President-Investor Relations

Thank you, Angela. Good afternoon and welcome to Brocade's fiscal Q1 2013 earnings call. By now you should have seen our press release and prepared comments which are available on our website [brcd.com](http://brcd.com). The press release is also distributed by Marketwire and furnished to the SEC.

Before we take your questions investors should note our comment today may include forward-looking statements regarding Brocade's financial results, plans, market opportunities and business outlook 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. 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. In addition this presentation may include various third-party estimates regarding the total available market for SAN and IP Networking as well as other measures which do not necessarily reflect the view of Brocade. Further, Brocade does not guarantee the accuracy or reliability of any such information or forecast.

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Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

This presentation includes non-GAAP financial measures. The most directly comparable GAAP information and a reconciliation between the non-GAAP and GAAP figures are provided in our Q1 2013 press release which has been furnished to the SEC on Form 8-K and in our slide presentation and prepared comments on our website [brcd.com](http://brcd.com). Here to take your questions are Lloyd Carney, Brocade's CEO; Dan Fairfax, CFO; Dave Stevens, CTO and VP of Corporate Development; Jason Nolet, VP, Data Center Networking; and Ken Cheng, VP of Routing, Applications Delivery and Software Networking.

I will now turn the call over to CEO, Lloyd Carney. Lloyd?

**Lloyd A. Carney, Chief Executive Officer & Director**

Before the normal review of our quarterly performance, I would like to say that it is a great privilege to have been appointed CEO of Brocade. I have met with many customers, partners, and employees in my first 30 days here and I have been impressed with what I have seen and heard. I see great potential to grow revenues and shareholder value. I am excited and honored to be able to navigate the company forward to take advantage of new opportunities that are emerging in the networking industry due to disruptive IT market trends. I'll cover some of those trends later in this presentation.

Now onto the discussion about our fiscal first quarter. Q1 was another positive quarter for Brocade in which we achieved record revenue of \$589 million, a 5% increase year-over-year. Non-GAAP gross margin increased year-over-year to 66% and non-GAAP operating margin increased to 23.5%, resulting in non-GAAP earnings per share of \$0.21, up 7% year-over-year. These results exceeded Brocade's guidance for revenue, operating margin, and profitability for the quarter.

Contributing to the company's solid performance in the quarter were record storage revenues, driven by the continued ramp of our Gen 5 Fibre Channel products, which is built on our 16 gig platform, also growth of server virtualization and cloud computing, and overall growth of the storage market. Brocade continues to be the SAN leader in technology, time-to-market, and market share.

IP Networking was up 14% year-over-year with increased revenue across three categories: switching, routing, and application delivery. The strength of our product portfolio for the data center, campus, and service provider markets is assisting us in acquiring new customers and expanding our presence in existing accounts. Disruption in IP Networking is also creating business opportunities which Brocade is well positioned to address.

Turning to the balance sheet, Brocade continues to make great strides in strengthening its financial position. During the first quarter, the company closed a \$300 million bond refinance offering that significantly reduces our interest rate and extends the maturity of our long-term debt. This represents a significant achievement for Brocade and clear recognition by the market of the company's financial strength.

Finally, Brocade acquired Vyatta during the quarter and I am pleased to report that the integration is progressing well. The Vyatta team is focused on executing to a very innovative product roadmap.

Against the backdrop of ongoing growth in the storage market, we continue to perform well in storage area networking with SAN product revenue reaching a record \$362 million in the first quarter, a 3% increase year-over-year and a 7% increase sequentially. A key driver of this growth is the unmatched reliability, simplicity, and performance of our industry-leading Gen 5 16 gig Fibre Channel SAN portfolio.

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*Ticker▲*

Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

We are seeing good customer adoption of this technology, with 16 gig products now making up 42% of our director and switch sales. We believe that the SAN market continues to represent an exciting opportunity for Brocade. With the rapid migration to high-density server virtualization and cloud computing, end users still choose Fibre Channel as the preferred storage networking technology due to its inherent performance and reliability. Further, with new storage technologies such as flash-based storage systems and 16 gig Fibre Channel arrays, demand for storage capacity is expected to grow 37% per year over the next five years. It is clear that as long as storage demands increase, the demand for Fibre Channel will also increase.

Finally, the ongoing refresh of our large installed base to our Gen 5 SAN portfolio represents a sizeable opportunity. We are already executing well on this upgrade cycle, as indicated by the pace of adoption of our 16 gig technology.

IP Networking product revenue was \$140.5 million in fiscal Q1, up 14% year-over-year with growth, I stated before, in each of our three product categories: switching, routing and application delivery.

Ethernet switch product revenue grew 18% year-over-year and we continue to see a healthy ramp of our Brocade ICX product line, which was a major refresh of our campus portfolio last year. Routing revenues increased 5% year-over-year due in part to higher revenue from 10 gig blades including our new 24-port 10 gig blades launched in September 2012.

IP Networking product revenue also benefited from solid performance year-over-year for our Brocade ADX products for applications such as cloud hosting and large-scale virtualization.

In Ethernet fabrics, we now have more than 950 customers, with healthy year-over-year revenue growth for our Brocade VDX product family and continued positive customer and industry feedback. We're pleased to report that Brocade Ethernet fabric technology recently won TechTarget's "Networking Innovation Award." TechTarget recognized not only the innovative nature of Brocade's VCS Fabric technology, but also the capability to introduce fabric technology in stages, integrating with existing data center architectures, and to scale easily with network requirements.

Gartner also recognized the strength of the Brocade Ethernet fabric vision and portfolio in its inaugural data center network infrastructure Magic Quadrant, where Brocade was placed in the visionaries quadrant ahead of nearly all other competitors. Brocade rated favorably for our VCS innovation as well as the efficient scale of architecture of our Ethernet fabrics, which is a key differentiator in the industry today.

A significant takeaway was Gartner's recommendation that Brocade be put on the short list of every data center networking and cloud provider sales consideration. That's worth repeating. Gartner recommended that Brocade be put on the short list of every data center networking and cloud provider sales consideration. While our overall Q1 performance in IP Networking is a highlight and we're making positive strides, we believe that we can further improve. We see a significant opportunity to leverage the advancements made in our product portfolio in 2012 and to strengthen our go-to-market efforts, which we believe will result in more consistent performance and higher growth rates for IP Networking.

Executing well in our core businesses of storage and IP Networking will be a top priority for me as CEO and for our team. To help achieve my ultimate goal of increasing shareholder value, I will be looking at ways to better position Brocade for success as new opportunities arise in the networking industry.

I believe we are just starting to see many of these opportunities develop as emerging IT requirements are challenging the capabilities of current networks. This is especially the case in the

large data center LAN market where architectures have not fundamentally changed in more than 20 years.

I know Brocade is well-positioned to take advantage of these opportunities and Brocade will lead in these new areas of networking. Our R&D investments have afforded us early leadership in several key areas such as data center fabrics, software-defined networking and next-generation products for SAN and campus networks.

In general, I believe networks have to evolve from the rigid, monolithic, and proprietary entities they are today to be more open, dynamic and agile. This [ph] will be on of (9:17) the most profound transformations that I've seen in my nearly 30 years of networking industry. I've had plenty of experience helping navigate companies through industry transformations, including my previous five years at Xsigo, in building the server fabric market for applications in cloud computing, SDN, and data center virtualization. I greatly look forward to leading Brocade through these new opportunities and taking the company to new levels of growth and value.

In summary, Q1 was a record quarter for Brocade with the company's performance exceeding guidance for revenue, operating margin, and profitability. I'm excited to be here at Brocade to lead the company to the next phase as we expand our software capabilities and expertise to complement the tremendous networking know-how and deep heritage of providing our customers reliable, scalable and high-performance networks.

I see in Brocade a strong company with great potential and the opportunity to take advantage of some major disruptions that are impacting the networking industry. Brocade has gained tremendous ground in terms of its technology, product portfolio and financial position the last few years and I extend my sincere compliments to this very talented team.

As a result, I couldn't be more pleased to open Brocade's next chapter of growth and success as we build shareholder value and help enable a new era of networking.

With that, I'll turn it over to our CFO, Dan Fairfax.

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**Daniel W. Fairfax, Chief Financial Officer & Vice President**

Thank you, Lloyd. Well, I'd like to add my welcome to everyone and thank you all for joining us today. Now, before I begin my discussion of the quarter's highlights and Q2 guidance, I'd like to say on behalf of our entire management team that we are excited to have you join us as our CEO. We are enthusiastic about the future of our business and welcome your leadership for this next phase of the company's growth.

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**Lloyd A. Carney, Chief Executive Officer & Director**

Thank you.

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**Daniel W. Fairfax, Chief Financial Officer & Vice President**

Now onto the quarter's results. So as you have all seen from our press release, in Q1 2013 Brocade generated record revenue of \$589 million, an increase of 5% year-over-year and up 2% quarter-over-quarter. As we look at our business by reporting segment, Q1 SAN product revenue

**Brocade Communications  
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*Company▲*

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Q1 2013 Earnings Call  
*Event Type▲*

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*Date▲*

was \$351.7 million, an increase of 3% year-over-year driven by higher switch and director revenue and reached a new record level for the company.

SAN product revenue was also up 7% quarter-over-quarter in a seasonally strong quarter for SAN.

Revenue from our IP Networking products was \$140.5 million, up 14% year-over-year but down 8% quarter-over-quarter, in a seasonally soft quarter for Ethernet switch sales. This sequential decline is principally due to established procurement cycles at our federal customers, where orders typically are placed later in the government fiscal year. The year-over-year increase in IP product revenue was across all product segments: Ethernet switching, routing and our application delivery products. Q1 global services revenue was \$86.5 million, up 3% year-over-year, down slightly sequentially.

Our non-GAAP gross margin was 66% in Q1, which was up 120 basis points from both Q1 fiscal 2012 and the fourth quarter of fiscal 2012. The year-over-year improvement in gross margins was due in part to higher revenue and a more favorable mix within our Ethernet products. The sequential improvement in gross margins was due in part to higher revenues, with a higher contribution from SAN products and the benefit of some lower manufacturing costs. Non-GAAP operating margin was 23.5% in Q1, up 200 basis points from Q1 2012 and up 100 basis points quarter-over-quarter and reached the highest level for the company since our first quarter of fiscal 2010.

Q1 GAAP loss per share was \$0.05, while non-GAAP diluted EPS was a record \$0.21 in the quarter. The GAAP loss per share included a non-cash tax charge of \$78 million, about \$0.17 per share, which was related to the passage of Proposition 39 by the voters of California and the related reduction in the company's deferred tax assets. We also saw a benefit in our Q1 tax rate from the passage of the federal R&D tax credit for 2013, as well as the catch up for the beneficial impact of the R&D tax credit reinstatement to our 2012 taxes.

During the quarter we refinanced our 2018 senior secured notes resulting in a significant reduction in the interest rate by 200 basis points and extending the maturity of the notes five years to 2023. At the time of the bond pricing the 4.625% interest rate was the lowest interest rate ever issued on a ten-year note for a company with our debt rating. We called the 2018 notes on January 22 and plan to pay the principal of \$300 million plus the associated call premium and interest earned on February 21. The 2023 senior notes are unsecured and carry investment-grade covenants.

Finally, we repurchased \$47.5 million of our common stock during Q1 and have \$501 million remaining in the board-authorized share repurchase program exiting the quarter.

Now looking ahead to fiscal Q2, we considered a number of factors including the following in setting our outlook: Current macro environment and economy continue to show uncertainty especially in Europe, certain parts in particular, as well as near-term spending by the U.S. federal government.

For Q2, we expect SAN revenue to be down 5% to 8% sequentially, and this is in line with our typical seasonality for the fiscal second quarter. For the full fiscal year, we continue to see encouraging demand trends for the SAN market and expect year-over-year growth of 2% to 5%.

We expect our Q2 IP networking revenue to be essentially flat, sequentially. A range that could be down 2% to up 2% quarter-over-quarter.

We expect non-GAAP operating expenses to be modestly higher, quarter-over-quarter, but in a range that would be typical on our second quarter. For Q2, we're expecting total revenue between \$555 million to \$575 million and non-GAAP EPS of \$0.14 to \$0.16.

From a tax rate perspective, we assume a structural non-GAAP tax rate for Brocade of 27% to 29% for fiscal 2013, which includes the benefit from the reinstated R&D tax credit. We do not forecast discrete tax events that can impact our tax rate from time to time.

Based on the company's performance in Q1 and the outlook for Q2, we expect full year fiscal 2013 gross margins to be slightly above the two-year target model range of 63% to 64% and fiscal 2013 operating margins to be at or slightly above the middle of the range of our two-year guidance of 19.5% to 22%.

And with that, I'll turn the call back over to the operator to begin the question-and-answer session.  
Operator?

**QUESTION AND ANSWER SECTION**

Operator: [Operator Instructions] And we will take our first question from Jayson Noland with Robert W. Baird.

**<Q – Jayson Noland – Robert W. Baird & Co. Equity Capital Markets>:** Great. Thank you. Congratulations on the quarter and, Lloyd, congratulations on the new position. I wanted to ask about...

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** Thank you.

**<Q – Jayson Noland – Robert W. Baird & Co. Equity Capital Markets>:** I wanted to ask about your comments first on the transformation of networking and given your background at Xsigo, what modifications if any do you think you need to make to Brocade's position or strategy going forward?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** Well, the Xsigo experience showed me firsthand the loyalty that Brocade customers had for Brocade. I mean, 90% of my customers at Xsigo were Brocade customers. They were connecting both Fibre Channel, storage and Ethernet storage into data centers and we're connecting to the biggest hosting data centers across the globe. And so, it was no doubt in my mind that Brocade had a strong base of customers and that it was well-positioned to take advantage of some of these changes that were going on in the data centers. As we look at this new architecture, with our fabric, and you just saw from the guys at Gartner, where data centre networking infrastructure Magic Quadrant, they had us there in the visionary section ahead of everyone and there's no one in that top-right quadrant so that's up for us to go and take.

And my biggest opportunity is to ensure that I align my sales and my go-to-market from an IT standpoint to do exactly what Gartner has said, which is we should be on the shortlist of every data centre networking and cloud provider opportunity that's out there. And it is our task now as a company to ensure that with this leading product that is going to be underpinning of all these new software-defined networks that we have – declared to have the best fabric out there. Better than the Cisco fabric, rather than the Juniper fabric. So Job one is let me go and get that fabric in front of all decision makers who are making choices right now on what the fabric looks like. I mean we have the ability to future-proof people's data centers with that portfolio and that's job one for us right now.

**<Q – Jayson Noland – Robert W. Baird & Co. Equity Capital Markets>:** What's your expectation on the pace of change? Is this something that plays out at cloud service provider and high end financial services first or do we start to see this in traditional enterprise?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** It's one of those weird things where being around this industry so long, if you'd asked that question 20 years ago it'd be obviously – the financial guys are the ones taking all the risk. They bought one of everything that everybody had. They were the innovators. Right now, the cloud service providers because their business models are so driven by ROI and they're so cost conscious, performance conscious, it is the new breed cloud service providers and the carriers to some extent who are getting for that cloud business who are the early adopters, who are the people we're going to have to have a laser beam focus on and the team has really started doing that. You can look at some of the successes that we have had. It's been in that cloud-based space, some of the early adopters in the service provider space. You'll see us take an aggressive stance against that market segment.

**<Q – Jayson Noland – Robert W. Baird & Co. Equity Capital Markets>:** Okay. Thank you. I'll leave it there.

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** You're welcome. Thank you.

<A – Rob Eggers – Brocade Communications Systems, Inc.>: Thanks, Jayson. Operator, we'll take the next question please.

Operator: And our next question comes from Mark Sue with RBC Capital Markets.

<Q – Mark Sue – RBC Capital Markets LLC>: Thank you. Lloyd, welcome to Brocade. I thought maybe if we could start off with your openness to look at the business from a wider lens and how you might consider divesting some assets while conversely strengthening other assets? And also, other ways on how you might consider enhancing shareholder value for a stock that's kind of been flat for almost five years now. Where does the shareholder rank in terms of how you prioritize – how you rethink the business?

<A – Lloyd Carney – Brocade Communications Systems, Inc.>: Yep. So, Mark, thank you. So from an opener's standpoint, you're looking at the business, of course there's always an advantage of coming from the outside in, and I'm a technologist at heart, an engineer at heart, and the thing that attracted me most, primarily, to Brocade was technology. I saw the fabric. I was at Juniper as COO, so I knew how QFabric was created. I competed against the Cisco UCS Fabric. I know that we have the best fabric in the marketplace. And I know that the market is leaning towards a fabric-based datacenter architecture. So it's technology first that had my interest here. And coming on board, I'll tell you four weeks into it, I'm more excited about technology than when I started. I mean, the people I've met, the product that I've seen, the customers that I've met all says that this company is poised to take off.

Now we're going through a deliberate process. I've done this before. It's not my first time coming in as the outside CEO, listening to the employees, doing the one-on-ones, doing the deep-dives, doing the segment reviews, all-day meetings. This first month really has been internal meetings. I've only traveled to see one customer. As you know 67% of our revenues are OEM-generated this past quarter. Last quarter it was 65%. A year ago it was 69%. So OEMs are very important to us. So the first out which I did was to my OEM partner, most of whom reached out to me because I knew them before. The only one I didn't know was Jack at Hitachi and I went to see him. So it's not lost to me, the importance of the OEMs in our overall architecture, making sure that we keep that relationship strong. Then it's – we have a very good EBC process here, so we had a lot of customers coming through. I met with some of those customers.

But it really has been predominantly looking at the employee base, looking at what we have internally, and, as you said, with a wider lens, an open mind of what we do and how we do it and how it matches up with the markets that we address. So that process is part – a third of the way through. We have – next month I'm hitting the road. I'm going out to see customers next month. I'm going out to visit with shareholders. I'm out talking to people like yourself next month to explain to you where we're going and what we're doing. At the end of that month, end of March, we're going to have a session with the team, where we have an exercise we're working on, where we are looking at every business we're in and why we're in that business. What the margins that, that offer, what's the profitability that we can get from those businesses. Are we best suited to be in those businesses?

So it's a blank sheet of paper. It is looking at what we do, where we do it, how we do it and justifying to ourselves why we're doing it and how we do it. And that process is a process that should take us through a five-month, six-month window before we'll come out and publicly say where we are in that whole process. But absolutely looking at it from an open standpoint. And the good news is the team here has already done most of this work. I'm not asking them to do anything that they haven't done before, and we're taking a fresh look at it based on the current facts in the marketplace. And no doubt in my mind that we will emerge from the other end of this process a little more focused than we are now in some of the segments that we play in.

**Brocade Communications  
Systems, Inc.**  
Company▲

BRCD  
Ticker▲

Q1 2013 Earnings Call  
Event Type▲

Feb. 14, 2013  
Date▲

As far as shareholder value, it's not lost on me and you can see how I certainly am compensated. The stock price is important to me, it's important to you, and the only solution to moving the stock price is to convince people like yourselves who have choices in what you invest in. You have a lot of places you can put your money, and our job is to convince you that this is a prudent place to make your investment and we plan on doing that. And we plan on doing that by showing you continued growth in the top line and continued improvement on the bottom line, and to show you that the areas that we choose to focus in, that we're going to be successful in those areas that we choose to focus in.

**<Q – Mark Sue – RBC Capital Markets LLC>:** That's helpful, Lloyd. So it's quite possible a year from now that the composition of the business could look very different?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** It's quite possible.

**<Q – Mark Sue – RBC Capital Markets LLC>:** That's helpful. Okay. Well, thank you and we wish you all the best.

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** Thank you.

**<A – Rob Eggers – Brocade Communications Systems, Inc.>:** Thanks, Mark. Operator, we'll take the next question, please.

Operator: And our next question comes from the Aaron Rakers with Stifel Nicolaus.

**<Q – Aaron Rakers – Stifel, Nicolaus & Co., Inc.>:** Yeah. Thanks for taking the question, guys. A couple real quick ones. As you guys evolve down this path towards fabric architectures, you're clearly building a customer base with the VDX product. At 950, I think you've been growing 100 to 150 per quarter. Can you talk about the size of that within the Ethernet segment and how we should think about that relative to what's been a fairly consistent positive trend on the gross margin of that Ethernet business?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** Would you like to take that?

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>:** Yeah. Let me start out by commenting on this – well, let me get the clarification on your question. You're asking about gross margins? Or you're asking about the nature of the customers who are investing in the technology?

**<Q – Aaron Rakers – Stifel, Nicolaus & Co., Inc.>:** I would say both. First, on the nature of the customers and the size of what you're seeing and then how, again, we should view that from a gross margin standpoint as VDX becomes a bigger mix.

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>:** Yeah. Fair enough. So let me tackle that. I've got your question now. So the first part of that is, and Lloyd alluded to some of this, we see VDX adoption in a number of areas. One is, as he said, public cloud providers of one form or another. These are guys who are not only concerned with the ROI associated with their technology investments; they're also looking to their technology investments and their architectures as a way of differentiating themselves in the market. So they kind of tend to look at the entire stack top to bottom and choose best in breed as it exists at the time they make their choice, and so we're seeing a lot of VCS Fabric adoption in that regard.

We're also seeing a fair bit of adoption in enterprise customers who are building that private cloud architecture perhaps for the first time. And they have a very similar mentality, right? They look at

**Brocade Communications  
Systems, Inc.**  
*Company▲*

BRCD  
*Ticker▲*

Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

best-in-breed and innovative technologies in the entire stack and make their choices knowing that this is an architectural foundation that they're potentially laying for the next five or seven years.

From an addressable market point of view, there's no reason to believe that over time the entire \$6 billion data center Ethernet switching TAM isn't available to Ethernet fabrics and Ethernet fabric technology. Clearly there's a period of time you have to go through where you win the early adopters and you get referencability and you ultimately cross the chasm to take advantage of that entire market. But we absolutely have our sights set on taking advantage of that entire TAM.

With respect to the margin question, the VDX products carry some of the highest margin in the company for us. And so an increased mix overtime to VDX is actually favorable from a gross margin point of view for us.

**<Q – Aaron Rakers – Stifel, Nicolaus & Co., Inc.>**: Okay. And then as a quick follow-up, I think at the analyst day and maybe you can update us on this, but you had talked about \$500 million plus of free cash – or of cash flow from operations generation for fiscal 2013. It looks like this quarter was a little bit low relative to how that trend would typically play out. Can you update us again? Are you still comfortable with that outline of cash flow generation?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: Yes. So I guess this quarter isn't indicative of a new trend in cash generations. So what I would say is EBITDA for the quarter was at a record level for the company. It is a quarter, though, that we have a combination of our employee profit sharing for the past year phased out in this quarter. We have interest payments on the notes, etcetera. But I think we're comfortable that we'll still be in that range that we gave you, maybe plus or minus. But we're pretty comfortable with that.

**<Q – Aaron Rakers – Stifel, Nicolaus & Co., Inc.>**: Okay. Thank you.

**<A – Rob Eggers – Brocade Communications Systems, Inc.>**: Thank you, operator. We'll take the next question.

Operator: And we'll take our next question from Jess Lubert with Wells Fargo Securities.

**<Q – Jess Lubert – Wells Fargo Advisors LLC>**: Hi, guys. And congratulations, Lloyd, on the new opportunity. First question is for Lloyd, I was hoping you could update us on the search for a new head of sales and a VP of marketing, where that sits in your line of priorities and when we might expect to see those slots filled?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: Jess, obviously, it's a priority for us. We're fortunate enough that we have a lot of good candidates externally and internally. People figured out that something special is going on here at Brocade. And our job is to sort out who the best candidates are. So we expect and we are prioritizing the team, the entire team here is involved in this process. We are prioritizing the VP of sales. And I'd be very surprised if we didn't have a decision made on a candidate – a candidate on board within the next 30 days. Right behind that is VP of marketing. And we've started that exercise and that process. And again, we have interested candidates and that would be the next one. But the first one, next 30 days you should expect a VP of sales to get sorted out.

**<Q – Jess Lubert – Wells Fargo Advisors LLC>**: And then my second question's on the outlook. It looks like you're guiding down about 4% sequentially at the midpoint, which seems like it would be below the seasonality we've seen at least over the last few years even though you're coming off a pretty [ph] soft (29:49) quarter. So can you help us understand what's driving the incremental caution here? Have you seen a change in the environment over the last 90 days? Have customer spending patterns deteriorated maybe more recently? Is there anything there that has you less

optimistic on the outlook for 2013 or is this just a function of a desire to be conservative heading into the new quarter?

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>**: So this is Dan. So I think what we view, or are guiding to, is really normal seasonality on the Fibre Channel business. To compare, Q2 of last year was a strong quarter. But we think we're in line with normal seasonality. We would assume that, let's call it the caution, would have baked in and realized in both Q4 and Q1 numbers. So we think that the normal seasonal pattern there is fine. The Ethernet side of the business is really more conditioned on some concentration in that, in our switching side of our business with the federal government where the predominant of the customers we're selling to have procurement cycles that really kick-off late in the government fiscal year. But we've kind of planned it in, in the way we've guided. So, I'd say no unusual caution there, but we think we have kind of a normal seasonal trend.

**<Q – Jess Lubert – Wells Fargo Advisors LLC>**: Is there some incremental caution though on the Ethernet side or is it just a shot down the middle with respect to seasonality?

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>**: I think it's really the seasonality question. There's – there might be. I guess the one place I'd say we might have looked a little bit more closely at is the federal sequester that I think if you probably handicap the people on the beltway now they'd say it's more likely than not and the question is, how short will it be, because it would be very painful for the economy. But other than that, I don't think there's anything other, that we baked in there.

**<Q – Jess Lubert – Wells Fargo Advisors LLC>**: And then last one from me. In the past you've given us the annual revenue run rate for the VDX. Can you give us that?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: Yes, so on the VDX business, so the business itself, we launched the chassis based version, the pipeline continues to grow quite strong, in fact its expanded quarter over quarter. And we're still on this kind of – we're at \$50 million run rate. As we exited last year we still have a target towards getting to this \$100 million run rate and we see that business growing quite nicely and we're happy with the portfolio we have in the field.

**<Q – Jess Lubert – Wells Fargo Advisors LLC>**: All right. Thanks, guys.

**<A – Rob Eggers – Brocade Communications Systems, Inc.>**: Thanks, Jess. Operator, we'll take the next question please.

Operator: And we will take our next question from Andrew Nowinski with Piper Jaffray.

**<Q – Andrew Nowinski – Piper Jaffray, Inc.>**: Okay. Good afternoon. And congratulations, Lloyd. I just wanted to ask a question on Vyatta. I know it's still very new but just wondering if there's any revenue in the January quarter and can you provide any sort of expectations for Vyatta in 2013?

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>**: Yeah. This is Dan. Let me pick that up. So the Vyatta acquisition was principally for us a technology acquisition. That team has done quite a nice job in the products and the customer feedback when we did our due diligence; it was really superlative for the business. It didn't have significant revenue traction at this stage of its development and so the revenue to us is really immaterial; it's not worth calling out here. And Ken, maybe you have some comments about how we see it fitting into our SDN strategy which I think is really the bigger and more important question.

**Brocade Communications  
Systems, Inc.**  
*Company▲*

BRCD  
*Ticker▲*

Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

**<A – Ken Cheng – Brocade Communications Systems, Inc.>**: Absolutely. So Andrew, this is Ken. We have absolutely seen an increasing interest of our solutions because now we have a balanced portfolio with hardware and virtualized infrastructure products. And in addition, with our investment in Vyatta we are driving the next generation product, which will be a tremendous technology for overall network and data center virtualization, in fact taking virtualization beyond just data centers. So we are very optimistic with our solutions and we will have more to announce in the near future.

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: And just on the other point, in my prior life, I mean last summer we stood up at the VMworld show a SDN-based infrastructure. And we chose Vyatta to be the virtual router in that stand and because of the work we did in analysis independent of what Brocade was doing, we came to the conclusion at VMware that Vyatta had the best virtual router in the marketplace. And so we stood them up in that VMworld showcase last summer.

**<Q – Andrew Nowinski – Piper Jaffray, Inc.>**: Okay. Very good. And then just last one for me. On the storage side, have you seen Cisco starting the qualification process on 16-gig at any of your server OEM partners yet?

**<A – Jason Nolet – Brocade Communications Systems, Inc.>**: Yeah. This is Jason. So we have seen a bit of them. Can't comment on their qualification process necessarily but we do expect that product to be in the market in the first half of calendar year 2013, and candidly, we're pretty excited to see that happen. And the reason for that is because we've been telling you guys quarter after quarter after quarter that the Fibre Channel marketplace is alive and well and growing and customers want to continue to invest. We've been a bit of a lone voice in that until now, and I think you're seeing Cisco agree that that's the case, right, that customers want to continue to scale and grow and invest in Fibre Channel technology. So the fact that they were pushing an Ethernet only agenda and a FCoE convergence agenda almost exclusively for the last several years and are now coming forth with a dedicated purpose built Fibre Channel product family I think is the best testament of all as to the strength we think that remains in this market.

The other thing I'd say about that is a lot of those Cisco MDF accounts have been locked up for some time because there was no disruption, there was no change going on in those accounts. Cisco hadn't released a new product for some time and introducing a new product line that creates an opportunity and actually a forcing function for their customers to have to change. And in that change comes opportunity for us as we find our way into those accounts and compete very effectively I think with Cisco on those upgrades.

**<Q – Andrew Nowinski – Piper Jaffray, Inc.>**: Okay. Great. Good luck, Lloyd.

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: Thank you.

**<A – Rob Eggers – Brocade Communications Systems, Inc.>**: Thanks, Andy. Operator, we'll take the next question, please.

Operator: And we will take our next question from Keith Bachman with Bank of Montreal.

**<Q – Keith Bachman – BMO Capital Markets (United States)>**: Hi. Thank you. I wanted to ask Lloyd, in particular you, on your views on the Fibre Channel business, which was just mentioned. And in the first quarter you had 3% growth and it looks like you're guiding to flattish to up a little bit. And yet for the year, in the prepared notes you're talking about the SAN market and expect year-over-year growth to be 2% to 5% and yet your compares are extremely difficult in the back half of the year, mid-teens kind of growth against a backdrop of Cisco perhaps coming back into the

**Brocade Communications  
Systems, Inc.**  
*Company▲*

BRCD  
*Ticker▲*

Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

market. So, really just trying to understand here, on very difficult compares for Brocade, due to success in the past year your confidence level on reaching 2% to 5% Fibre Channel growth here?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: I'll take the first part of this and turn it over to anybody else on the team who wants to chime in. But one of the reasons why I joined was it was clear to me from the outside looking in that Fibre Channel wasn't dead, despite the cloud that our friends at Cisco had put on it because of the promise of FCoE taking over the world. Well, that didn't happen. FCoE didn't take over the world and they've drawn back from that and FCoE now is like a bit part player in the overall scheme of things. It was clear in talking to the major players outside, before I joined, that everyone was seeing Fibre Channel growth.

**<Q – Keith Bachman – BMO Capital Markets (United States)>**: Yeah.

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: A part of the world where we don't have a pretty strong presence, which we'll improve upon is Asia in particular. China has double digit Fibre Channel growth. So every trend that's out there in storage in some way they all lead to – points back to Fibre Channel.

All the SSC vendors out there, all the major vendors Fusion-io, you name it, it's all – they've all put SDN interfaces on their devices because they've figured out that in order to get back from their storage infrastructure to the real world, Fibre Channel is the best interface for them to have. So we're seeing people align and move more towards Fibre Channel as a solution than away from it. As you just heard from Jason, the Cisco announcement of their 16 gig infrastructure play is great news for us because even some of our existing customers were cautious in signing off when Fibre Channel first stood because there was – Cisco said Fibre Channel is dead. Well, Fibre Channel's not dead anymore. Our existing customers now have carte blanche in signing up on these new Fibre Channel infrastructures that we're rolling out.

So I'm confident on the growth of Fibre Channel. I'm confident that the numbers that we have put out for the projection for the year will be able to meet and so is the team. There's nothing out there today that would point to the Fibre Channel market having any impediment to grow over the foreseeable future for us right now.

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>**: Yeah. And just to add to Lloyd's point here and reinforce the point around flash in particular. We are working with every major flash vendor, certainly the array guys, to make sure that we are fully qualified, tested, certified and have delivered joint solutions and done joint marketing with most of them around the benefits of Fibre Channel combined with Flash. So we think that's a great, obviously quickly ramping technology that Fibre Channel's a perfect mate for.

The other thing I'd highlight in terms of optimism for the remainder of the year for us is new product introductions that we'll be doing. And we're going to have new high end switching capability as well as new software content that is focused on manageability and diagnostics and visibility in the fabric end-to-end, from the servers all the way to the storage targets.

And we're not quite ready to announce that today but I think some really compelling value props that will build on the, I think, industry leading platform set that we've now delivered with this Gen 5 or what we call the 16 gig family. So I think that's a reason for optimism for sure.

And then the last thing I'd say is most of our OEM partners in this space as you know are less and less friendly with Cisco over time because Cisco's competing with them. That creates a great environment for us to do more and more with them with respect to a greater share within those environments going forward, so we're optimistic for that reason as well.

**Brocade Communications  
Systems, Inc.**  
*Company▲*

BRCD  
*Ticker▲*

Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

**<Q – Keith Bachman – BMO Capital Markets (United States)>:** Okay. Well as my follow-up, Dan, if I could just sneak one in is it looks like you're guiding gross margins down to the 64 – non-GAAP, excuse me, gross margins, the 64%, 64.5% range. So can you just walk us through what some of the puts and takes are whereby gross margins would go down? And that's it for me. Thank you.

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>:** Sure. So, gross margins, it's a couple of different factors that influence them most strongly within our business. First and foremost is really the mix between Fibre Channel of product volumes and Ethernet product volumes. As we start to look into Q2, with some – the seasonality impacted the top line for SAN. Ethernet products become a greater part of the mix. So that weighs on the deposit gross margin. That's certainly a key part of the mix.

We did have some benefits in Q1 around some operations process spending. It's not clear to us how long that'll continue or if it will continue, so we baked that into the guidance as well. But, if we look further out, we still like the dynamics we have within our business. And it was pointed out earlier in the call, I think Jason made a couple of comments about it, the Ethernet fabrics products, which have a lot more of Brocade intellectual property, gross margins on those devices are up in the 70% range. Very close to...

**<Q – Keith Bachman – BMO Capital Markets (United States)>:** Right.

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>:** ...the Fibre Channel products. And the Ethernet products, in particular you can look at the routing family, the higher density [ph] core blade that we've (42:44) launched for the MLX; also we're starting to expand gross margins in this. So we're bringing more software elements into our story as we look into 2014. That will help as well. So we like the position we're in and pleased we have been able to expand gross margin, but it won't be a steady smooth line. It'll have some little steps along the way.

**<Q – Keith Bachman – BMO Capital Markets (United States)>:** All right. Thanks, Dan.

**<A – Dan Fairfax – Brocade Communications Systems, Inc.>:** You're welcome.

**<A – Rob Eggers – Brocade Communications Systems, Inc.>:** Thanks Keith. Operator, we'll take the next question please.

Operator: And we will take our next question from Amitabh Passi with UBS.

**<Q – Jim Hillier – UBS Securities LLC>:** Hi, this is Jim Hillier for Amitabh. I guess with Cisco getting back into the SAN market for 16 gig, could you remind us how pricing and margins have trended when Cisco re-enters the market, if you see any potential disruptions in the back half of the year? And also a sense for how much upgrade opportunity remains in the shift to 16 gig?

**<A – Jason Nolet – Brocade Communications Systems, Inc.>:** Yeah, it's Jason. Let me tackle this, Jim. So from a pricing point of view, we've obviously been competing with Cisco for many years in this space. And I don't expect their introduction of a 16 gig portfolio to really change the pricing environment or dynamic any. In some cases, they price a little higher than we do. In some cases, it's the opposite. But price is typically not a key driver for decision making in this space, given the mission-critical nature of the technology and where customers put this in their data centers. So I'm not anticipating any pricing or margin pressure as a result of them coming back in, if you will. Sorry, what was the second part of your question, Jim?

**<Q – Jim Hillier – UBS Securities LLC>:** A sense of how much of the upgrade opportunity remains ahead of us.

<A – Jason Nolet – Brocade Communications Systems, Inc.>: Yeah. Yeah, good question. So, we talked about 42% approximate of our revenue coming from this next-generation technology. A fair bit of that, however, is coming from incremental deployments within customer accounts. People they're scrambling to accommodate this crazy explosive growth in storage and data, and so we think there is still a ton of opportunity in terms of the installed base. I know we've talked on previous calls that, that might be in the billions.

If you just look at some of the legacy director class products in our own installed base, you could easily get to an \$800 million number in terms of the opportunity there that it largely has yet to be churned. So we think there's a great opportunity for tech refresh, and we're actually working with every single one of our OEMs now to make sure that they have incentives, their channel has incentives and that we are kind of tagging on to the storage refreshes that they've got going on in many cases. So we think there's a great opportunity, and we're pretty focused on taking advantage of that.

<Q – Jim Hillier – UBS Securities LLC>: Okay. Great. And also if you wouldn't mind, if you could give us maybe a sense for how linearity trended during the fiscal first quarter that would be helpful.

<A – Dan Fairfax – Brocade Communications Systems, Inc.>: So this is Dan. So we were quite pleased with linearity and you may have seen in our prepared materials our DSO reflected that quite strongly. So we were down around 33 days and that's directly related to the linearity of shipments within the quarter. So we've been quite pleased and that's not a new dynamic for us. Over several quarters now we've seen DSOs be down in the low to mid 30-day range.

<Q – Jim Hillier – UBS Securities LLC>: Got it. Great. Thank you.

<A – Rob Eggers – Brocade Communications Systems, Inc.>: Thanks, Jim. Operator, we'll take the next question, please.

Operator: And we will take our next question from Mark Moskowitz with JPMorgan.

<Q – Mark Moskowitz – JPMorgan Securities LLC>: Yes. Thanks. Good afternoon. A couple questions if I could. Drilling down on the – drilling down onto the Ethernet business with the IP Network and it seemed like the carrier segments really drove the out performance relative to Enterprise. Can you kind of talk a little about how we should think about that mix shift, if it's something that's going to be temporal in nature or more chronic?

<A – Dan Fairfax – Brocade Communications Systems, Inc.>: So let me – so I'm going to ask Ken to give a little more color here but first I wanted to frame these numbers around these end customer segments. So what's happened within our business and we really noticed this and we called it out in both I think in earnings and in our 10-K filing. As we move to two tier distribution, we've lost some visibility to who that actual end customer is. So we've had to use derivative information, either information out of our funnel, point of sale information that comes in from our partners and whatnot. So our numbers are a little less precise than they would have been this time a year ago, and so I'd say when we've given information about this, which we did in the prepared remarks more of a color statement.

So again, be a little bit careful about reading too much – certainly the service provider piece stands out dramatically this quarter and I'll let Ken talk to some of the dynamics there but I want to be careful and just caution people to read too much into those numbers because the figures, would rather have you look more closely toward ones we know more definitively, which is routers, ADX and other Ethernet products with switches because we know what we shipped to our customers.

**Brocade Communications  
Systems, Inc.**  
*Company▲*

BRCD  
*Ticker▲*

Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

**<A – Ken Cheng – Brocade Communications Systems, Inc.>**: Hey, Mark. This is Ken. Let me just comment on the service provider business. You have seen that we have healthy growth this quarter. I think it's primarily driven by two things. One is increasingly we see enterprise customer moving the content and applications to cloud. And that drives the infrastructure build-out of not only the traditional cloud service providers but also the cloud data centers in the Tier 1 carriers. And secondly, in order to drive costs down in the core networks, many of the carrier network providers are moving to a new technology core called the simplified Supercore.

What it means is that instead of continuing to pile features into the core routers, they are in fact simplifying the core router but increasing scale and density and that precisely play to the strength of our Brocade routers, specifically the MLX routers. In the last couple quarters we have introduced our new Supercore routers based on our third generation module called the 24X 10 gig cards which have, as we saw, driven a lot of the growth in the last couple quarters.

**<Q – Mark Moskowitz – JPMorgan Securities LLC>**: Okay. Thanks for that. I appreciate it. My other question is for Lloyd. Lloyd, you talked earlier about your excitement for the Brocade Fabric relative to some of the other participants out there in the marketplace, but clearly, Brocade is still trailing those two other major participants you mentioned. I was just kind of curious, are you signaling then that you're going to need to do something to get the word out more so that other people know about your excitement that you have in terms of the greater level of sales and marketing focus from an OpEx perspective?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>**: Well, I'm not sure we, whatever we do will be within the OpEx boundaries we have today. We might refocus some of the efforts but not sure I'm trailing most of the other people out there. I'm pretty sure I'm not actually trailing most of the other people out there from a full system shift, I'm sure. I may be trailing one of them over revenue but I'm pretty sure we're number two in that space right now and from a technology standpoint, we're number one. The predominance of why people are choosing us – the predominance of why people are choosing us is if you look at what we're doing we are creating a future-proof infrastructure.

As this world moves towards [indiscernible] (50:25) networks where – if I froze you 20 years in time and I woke you up today you'd walk in a data center, you'd be able to point to the [ph] top racks, the end of row switch (50:32), the core switch, the firewall and you'd be able to identify everything. Well, the world that's evolving and it's driven by what the Intel guys have done with multi-core processes, high performance, what the chip guys have done driving down the cost of memory components.

The world is different. You look at data center going forward the firewall's going to be a piece of software, the switch is going to be a piece of software, the router's going to be a piece of software. And into that new evolved world where you have a control plane, a control doing SDN across this infrastructure, it requires an agile, flexible fabric, and we have the most agile, most flexible Fabric designed from scratch, purpose built for this environment. And we had the luxury of leveraging that – good news for me when I came and found out.

We leveraged 17 years of what we've done on the Fibre Channel side into this platform. So the ease of use, the gracefulness of which you can bring this product up, scale this product, manage this product, all of this is leverage based in 17 years of history, and it is an outstanding product. And our job is to message that, to insure that people understand the value that this product delivers, and there should be some realignment in our go-to-market message from a marketing standpoint creating demand for this and our in the field positioning around how we embrace customers on this product portfolio. So you should see and will see a more focused effort around the efficacy of this platform.

**Brocade Communications  
Systems, Inc.**  
*Company▲*BRCD  
*Ticker▲*Q1 2013 Earnings Call  
*Event Type▲*Feb. 14, 2013  
*Date▲*

<Q – Mark Moskowitz – JPMorgan Securities LLC>: Thank you.

<A – Rob Eggers – Brocade Communications Systems, Inc.>: Thank you, Mark. Operator, we'll take the next question, please.

Operator: And we will go to Matt Robison with Wunderlich.

<Q – Matt Robison – Wunderlich Securities, Inc.>: Hi. Thanks. I was on a flight so hopefully I'll not ask any questions you've already answered. I've seen the release 8770; it was shipped in volume in the quarter and comments about customer count growing for fabric and year-over-year growth. Can you give a flavor for the sequential growth for fabric and how the 8770 played into that?

<A – Jason Nolet – Brocade Communications Systems, Inc.>: Yeah. Let me just talk to the 8770 because that was obviously the big product introduction we did back at the end of October. We've seen a pretty broad set of customers demonstrate interest in this, and we've just by way of example, we had I think 10 early, what we call EFT or beta accounts. At least half of those have already converted into orders, and we expect the other half to do so in the near future. But as you might guess with a larger chassis compared to a fixed top rack switch that's a bit pricier, those sale cycles can be a little longer. Customers take a little bit longer to evaluate them.

They're now looking at their fabric deployment not only from a top rack point of view but from an aggregation point of view. So kind of the very common, two-tier fabric deployment model, now we have the entire portfolio to go do that. So they're considering their purchases on the basis of more broadly deploying fabric in the datacenter, and that means they take a bit more time to consider products like the 8770. So long and short, we're happy with the momentum we've seen so far. It's obviously pretty early, but we're seeing a lot of interest. We've seen a lot of pilots. As I said, we've converted some of those early beta customers, and that's always a good sign. So, I think we're as optimistic now as the day we released the product.

<A – Dan Fairfax – Brocade Communications Systems, Inc.>: Okay so – it's clear on the call, in terms of the run rate exiting Q1, roughly the same number of customer acquisitions, the revenues were essentially flat quarter-over-quarter, but the pipeline has grown dramatically. The early customer feedback from those who have taken the 8770 is quite strong. So we're going to be quite bullish there.

<Q – Matt Robison – Wunderlich Securities, Inc.>: Thanks, Dan.

<A – Rob Eggers – Brocade Communications Systems, Inc.>: Thanks, Matt. Operator, we'll take the next question, please?

Operator: We'll take our next question from Scott Schmitz with Morgan Stanley.

<Q – Scott Schmitz – Morgan Stanley & Co. LLC>: Thanks. I just had a follow-up on Mark's earlier question around the enterprise Ethernet business. I understand the two-tier distribution aspect of it, but if I look at, and I think last quarter you talked about some large router deals that had some delays and higher discounting. Is that still at play? And that's still part of what's happening in that segment?

<A – Lloyd Carney – Brocade Communications Systems, Inc.>: I guess I'm a little confused. For the routers themselves? Or within the...

<Q – Scott Schmitz – Morgan Stanley & Co. LLC>: I'm just going back to last quarter, and you called out delays from some large router projects that I think were both service provider and to

**Brocade Communications  
Systems, Inc.**  
Company▲

BRCD  
Ticker▲

Q1 2013 Earnings Call  
Event Type▲

Feb. 14, 2013  
Date▲

some extent in the Ethernet – the enterprise business. So, I'm just wondering if that's still part of what causes the sequential decline in that segment.

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** [ph] Most of the line, was due the federal (55:36)...

**<A – Dave Stevens – Brocade Communications Systems, Inc.>:** Yeah. Exactly. This is Dave. The comment that I would just make is we saw good growth in the router products, as Ken pointed out, particularly in the 10-gig, 100-gig, higher density products both in the enterprise and in the carrier space. We saw good growth in the ADX load balancing products. We saw good growth in what we would historically term the campus networking products, the ICX stackables that go in the closets and things that go into medical centers and education and things like that. I think overall when you bundle all that together you're seeing I think we reported 14% year-over-year growth in the IP in that Ethernet business.

The seasonality that Dan talked about is in the federal space, they tend to flush pretty large budgets toward the end of the federal fiscal year. So the November, December, January period tends to be a little bit softer in the federal space than it was. So that's down a little bit over the close of the federal fiscal year. And then the other components are up, in the enterprise space. So when you kind of mix the two of those together, it shows a sequential decline. So that's really all the mix is.

**<Q – Scott Schmitz – Morgan Stanley & Co. LLC>:** Okay. So it sounds like, as far as the build-out of your two-tier distribution and the productivity of your sales reps, all that's tracking to plan as far as you guys are concerned?

**<A – Dave Stevens – Brocade Communications Systems, Inc.>:** Yeah. I think we're extremely happy with that. We're continuing to see progress, as Dan said, is in the channel partners and what's happening in the channel and what's going on there, and what we'll release in the new products, and what we've got planned on the roadmap. I think it's all good.

**<Q – Scott Schmitz – Morgan Stanley & Co. LLC>:** Okay. Thank you.

**<A – Rob Eggers – Brocade Communications Systems, Inc.>:** Operator, we have time for one last question.

Operator: And we will take our final question from Erik Suppiger with JMP Securities.

**<Q – Erik Suppiger – JMP Securities LLC>:** Hi. I had a couple of questions. First off, Lloyd, I'd be curious just to get your perspective on Brocade's channel, how you would view your channel relationships on the IP side and if you're making – if you have any intentions to make changes to your channel programs? And then, secondly, I was wondering if there was any update in terms of the CloudPlex rollout that you were talking about from your analyst day? And if there's any updates on the Starlifter product?

**<A – Lloyd Carney – Brocade Communications Systems, Inc.>:** Okay. So I'll take the channel side. The channel program has shown great improvements over the past year. There's been a renewed focus here at Brocade on the channel, channel partners, MDF programs, the intentions that we give to the channel partners, how we monitor and measure their performance. But it takes more than a year to get it to where you need it to be. So we should expect to see continued improvements in the channel program and monitoring these incentives that we need to fine-tune some incentives maybe to make sure they're more effective than they are today. But much progress has been made. Progress yet to be made in the channel program. We're pleased with where we are right now on that.

On the Starlifter front, we have pulled back from the Starlifter launch. It is something that was going through a normal release process, which is a very, very solid release process methodology here at Brocade, which I came and reviewed and saw that they had a pretty robust process for releasing products, deciding what products to ship, and on an ongoing basis, monitoring to see if the market requirements are still there, the team, I think, made the right decision in delaying the launch of that product. I think if you look at that marketplace that VM mobility space that product was targeted at, we think we're a little early to market and as such we have pulled back from the market.

We don't think the market conditions are right, right now for it, and as much as good hard work that went into the product, you can be too late to market, you can be too early to market. You can be right on time to market. And I think it speaks volumes to the process that Brocade has here in reviewing and launching products that they're able to say – the easiest thing, by the way, would have been to launch the product.

Because was in beta; customers liked it. It was well received. But the right decision, the heart of business decision was to delay the product and to look to revisit that product when we think the market timing was more appropriate. So, kudos to the team for making a very hard decision. I'll tell you, most companies I've been in they would have just slide out the door and we would have just dealt with the low volume infestation later.

So I think the team did an outstanding job in revisiting that and I think it speaks to the focus we have here on the bottom line. I mean, we are here and we know that and in order to move our stock price we've got to move the bottom line. We've got to improve profitability of the company – and we can't afford to be doing is shipping products that don't meet the requirements that we have for profitability, for margins, for success. So I think, again, kudos to the team for making the right decision. I'm going to turn it over to Jason.

**<A – Jason Nolet – Brocade Communications Systems, Inc.>**: Yeah. I'll just add on to that, that the other dynamic here was that we discovered that some of the use cases for Starlifter can actually be satisfied with our VDX switches and VCS Fabric functionality. So the ability to extend a Fabric over distance is something that has been a recent road map development for us on the VDX and VCS side and so we could satisfy that particular use case with that product as an integrated feature, if you will, rather than a separate product line. So that was also a driver and I think that's good news for us.

You asked about CloudPlex, and just briefly, CloudPlex was a construct we were using to describe three major initiatives that we had relative primarily to the data center. And that was obviously the fabric construct being central to everything we do in data center networking; the second was the nature of being open and partnering with best-in-breed vendors in the industry to deliver open but also converged infrastructure, something we called Open Virtual Compute Blocks, and then third was this notion of being global and interconnecting data centers and that piece we've just talked about in the context of Starlifter and what VCS and VDX can do.

The two other components, the fabric and the openness, are absolutely part of the strategy and we're continuing to execute on that. You've heard a lot on this call and you know that Ethernet fabric and Fibre Channel fabrics continue to be the core technology initiatives for us, and we're going to invest as hard and fast as we can there. And then the openness piece continues to be very important for us. And we don't talk a lot about it on these calls, but we have through the strength of our longstanding OEM relationships on the Fibre Channel side, we have taken advantage of those in introducing our IP Ethernet switching and routing technology into many of the initiatives that those vendors have with respect to delivering converged infrastructure or reference architectures around converged infrastructure.

**Brocade Communications  
Systems, Inc.**  
*Company▲*

BRCD  
*Ticker▲*

Q1 2013 Earnings Call  
*Event Type▲*

Feb. 14, 2013  
*Date▲*

So whether it's Hitachi or Fujitsu or delivering big data solutions with IBM or SYNEX Hyve, we've really worked very hard to deliver our Ethernet and Fibre Channel fabrics technology in particular as a key component of many of those open, converged infrastructure architectures.

<Q – Erik Suppiger – JMP Securities LLC>: Very good. Thank you very much.

<A – Rob Eggers – Brocade Communications Systems, Inc.>: Thanks, Erik.

**Robert Eggers, Vice President-Investor Relations**

I'd like to thank everyone for their time and attention on our call this afternoon. We look forward to speaking with you more during Q2 at our upcoming investor event. Angela, we will now close the call.

Operator: Ladies and gentlemen, this concludes today's conference. We thank you for your participation.

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