

INDEPENDENT ADVISER'S REPORT



Prepared pursuant to Rule 22 of the New Zealand Takeovers Code in relation to a full takeover offer for Endace Limited

December 2012

Statement of independence

Taylor Duignan Barry Ltd confirms that it:

- a. has no conflict of interest that could affect its ability to provide an unbiased report; and
- b. has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

Taylor Duignan Barry Ltd has satisfied the Takeovers Panel, on the basis of the material provided to the Panel, that it is independent under the Takeovers Code for the purposes of preparing this report.

Rule 22 Report prepared by Taylor Duignan Barry



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1. Purpose of the report

This report has been commissioned by the offeror. This is not a report on the merits of the offer.

The purpose of this report is solely to compare the consideration and terms offered for the different classes of securities and to opine as to the fairness and reasonableness of the consideration and terms as between the different classes.

A separate independent adviser's report on the merits of the offer, commissioned by the directors of Endace Limited, must accompany Endace Limited's target company statement.

The offer should be read in conjunction with this report and the separate independent adviser's report on the merits of the offer.

2. Summary of the report

We have based our report on the following:

1. Emulex is proposing to purchase 100% of the Endace securities for £80, 664,143.56, as below:

offer value	
ordinary shares	£76,100,340.00
options on ordinary shares	£4,563,803.56
	<u>£80,664,143.56</u>

2. The £76,100,340.00 offer for the 15,220,068 million ordinary shares is a price per share of 500p
3. The £4,563,803.56 offer¹ for the 1,793,426 options on ordinary shares has been constructed in a manner that is consistent with a takeover clause share option terms and more specifically by:
 - a. Accelerating all outstanding non vested share options to vested share options
 - b. Changing the final expiry date for the exercise of the share options to 10 days following the takeover offer
 - c. Removing the funding risk of the exercise of the share options by having the offeror pay a "cash for differences" amount for any positive value of the share options at exercise date, being the difference between the offer price of the ordinary shares and the strike/exercise price of the share options e.g the owner of a share option that has the right to buy the ordinary shares at 200p would be paid

¹ We note that Emulex will offer to pay the Pound equivalent in alternative currencies, we understand that the FX rate set for this conversion will be at a spot rate at the end of the offer period and as such this does not affect value.

a net cash settlement of 300p being the difference between buying the shares at 200p and selling them at 500p.

4. There being a clause in the share options documentation that allows directors to make the above changes to the share options issued, specifically :

Clause 10. Alteration of exercise period

The Board of Directors of the Company may, at its discretion, alter the period during which an option holder may exercise some or all of their options where a Takeover or Business Sale (as referred to in rule 8 above) is proposed to occur. Any alteration may involve permitting an early exercise of options and/or introducing an earlier final cut-off date for the exercise of options, and may be subject to specified conditions. This discretion is intended to facilitate a transaction of this type and is likely to involve providing the option holder with an opportunity to participate in such a transaction.

5. Discussions with the independent directors of Endace that confirm to us that they will recommend to the Board that clause 10 be implemented. This implementation of clause 10 will result in all share options having their current expiry dates (that range from 20 Dec 2013 to 26 Jun 2018) brought forward to an expiry date of a short period (likely to be 10 days) after takeover offer date.

2.1 Value of the share options

Our assessment of the value of the options as compared with the offer price is set out below:

option tranche	number of options on ordinary shares	exercise price per share	expiry date	value		Emulex offer value
				pounds	total	
1	1,548	£0.00125	21/12/2014	£5.00	£7,738.07	£7,738.07
2	168,852	£1.045	18/04/2016	£3.96	£667,809.66	£667,809.66
3	132,666	£1.195	5/06/2017	£3.81	£504,794.13	£504,794.13
4	55,000	£1.410	5/06/2017	£3.59	£197,450.00	£197,450.00
5	83,107	£1.685	21/12/2015	£3.32	£275,499.71	£275,499.71
6	6,500	£1.895	30/08/2015	£3.11	£20,182.50	£20,182.50
7	19,000	£1.930	22/07/2016	£3.07	£58,330.00	£58,330.00
8	48,750	£1.950	22/05/2015	£3.05	£148,687.50	£148,687.50
9	73,500	£1.990	9/11/2016	£3.01	£221,235.00	£221,235.00
10	443,953	£2.000	5/06/2017	£3.00	£1,331,859.00	£1,331,859.00
11	8,500	£2.020	5/06/2015	£2.98	£25,330.00	£25,330.00
12	141,500	£2.200	31/05/2016	£2.80	£396,200.00	£396,200.00
13	17,000	£2.520	20/01/2016	£2.48	£42,160.00	£42,160.00
14	5,500	£2.530	12/08/2015	£2.47	£13,585.00	£13,585.00
15	120,500	£2.580	26/08/2015	£2.42	£291,610.00	£291,610.00
16	30,000	£3.340	30/08/2015	£1.66	£49,800.00	£49,800.00
17	2,750	£3.440	26/05/2014	£1.56	£4,290.00	£4,290.00
18	50,000	£3.540	8/02/2014	£1.46	£73,000.00	£73,000.00
19	7,000	£3.720	10/02/2017	£1.28	£8,960.00	£8,960.00
20	66,500	£4.270	20/12/2013	£0.73	£48,545.00	£48,545.00
21	122,800	£4.290	7/11/2014	£0.71	£87,188.00	£87,188.00
22	85,000	£4.370	26/06/2018	£0.63	£53,550.00	£53,550.00
23	90,000	£4.600	1/08/2017	£0.40	£36,000.00	£36,000.00
24	8,500	£5.340	17/01/2018	£0.00	£0.00	£0.00
25	5,000	£5.500	20/02/2018	£0.00	£0.00	£0.00
	1,793,426				£4,563,803.56	£4,563,803.56

2.2 Our conclusions

The difference between our assessment of options value and the offer price for the options is nil and so we determine that the offer is fair and reasonable between the different tranches of options.

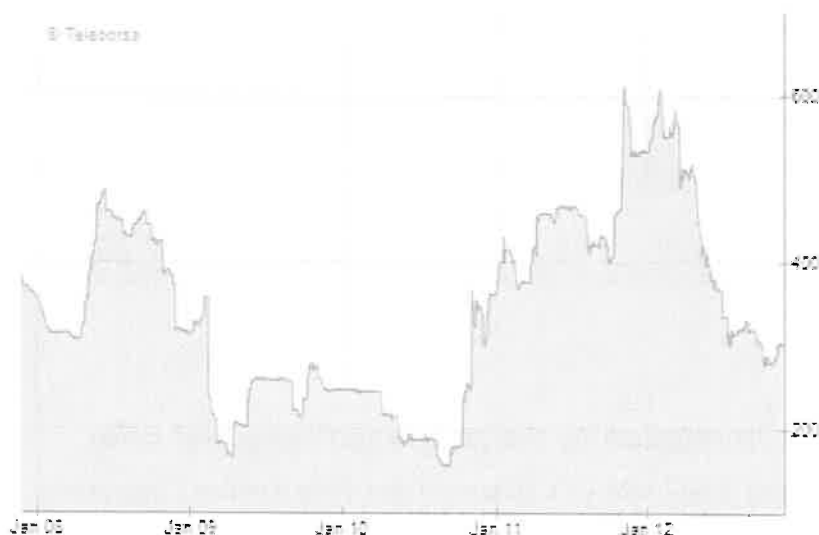
The offer for the share options is based off the same ordinary share price as the offer of 500p, so we also determine that the offer in comparison with the offer for the ordinary shares is fair and reasonable.

Accordingly, we certify that, in our opinion, the offer complies with rule 8(4) of the Code.

3. Scope of the report

3.1 Background

Endace Limited is a New Zealand registered company that provides network monitoring and recording solutions for high-speed networks. Endace has 15,220,068 ordinary shares trading on the AIM exchange in the UK. The share price history over the last five years presented in the graph below is:



Details of the company are on www.Endace.com. A summary of profitability is:

Income Statement (\$m)	31-Mar-12	31-Mar-11	31-Mar-10	31-Mar-09	31-Mar-08
Continuing Operations					
Revenue	41.15	38.37	31.02	30.38	24.21
Operating Profit/(Loss)	2.17	2.45	-0.29	4.74	4.51
Net Interest	0.02	-0.02	-0.07	-0.01	-0.01
Profit Before Tax	2.19	2.43	-0.37	4.73	4.50
Profit After Tax	1.77	2.16	0.12	2.75	3.44
Discontinued Operations					
Profit After Tax	n/a	n/a	n/a	n/a	n/a
PROFIT FOR THE PERIOD	1.77	2.16	0.12	2.75	3.44
Attributable to:					
Equity Holders of Parent Company	1.77	2.16	0.12	2.75	3.44
Minority Interests	n/a	n/a	n/a	n/a	n/a

Income Statement (\$ m)	31-Mar-12	31-Mar-11	31-Mar-10	31-Mar-09	31-Mar-08
Continuing EPS					
Earnings per Share - Basic	12.00¢	14.00¢	1.00¢	18.00¢	23.00¢
Earnings per Share - Diluted	11.00¢	13.00¢	1.00¢	16.00¢	21.00¢
Earnings per Share - Adjusted	12.00¢	14.00¢	1.00¢	30.00¢	25.00¢
Continuing and Discontinued EPS					
Earnings per Share - Basic	12.00¢	14.00¢	1.00¢	18.00¢	23.00¢
Earnings per Share - Diluted	11.00¢	13.00¢	1.00¢	16.00¢	21.00¢
Earnings per Share - Adjusted	12.00¢	14.00¢	1.00¢	30.00¢	25.00¢
Dividend per Share	n/a	n/a	n/a	n/a	n/a

3.2 Key points in relation to the proposed takeover offer

Endace is anticipating it will receive a takeover offer from Emulex Corporation, a US company through its indirect wholly owned subsidiary, El Dorado Research Ventures Limited (Emulex Bidco). The offer is expected to be:

1. 500p for all the ordinary shares of Endace
2. 500p less the strike price for all the share options (if the exercise price of the share options is above 500p then the price offered is therefore nil)

Emulex is a leader in converged networking solutions, provides enterprise-class connectivity for servers, networks and storage devices within the data center. More information about Emulex is available at <http://www.Emulex.com>. Emulex is listed on the NYSE (under code ELX). It has 89.65m shares and has a market capitalisation of US\$ 631m.

Endace has an employee share scheme pursuant to which it has granted one-for-one stock options (**Options**) to 105 of its employees. The employees are not required to pay any money to receive the Options, which are granted in tranches exercisable from specific future dates (usually annually over four years). The exercise price payable for the Options is calculated based on a 3-month average share price prior to the grant date.

There are currently 1,793,426 options on ordinary shares outstanding. The options have expiry dates ranging from December 2013 to June 2018.

3.3 Requirements of the New Zealand Takeovers Code

We are conscious of Endace shareholders and employees being spread across a number of countries and to avoid any confusion make the point that Endace as a NZ registered company and so is required to operate under the NZ takeovers code. Endace is a 'Code Company' as defined by Rule 3 of the Code. The takeover process initiated by Emulex through Emulex Bidco must comply with the provisions set out in the Code relating to the Offer procedure.

Pursuant to Rule 8(2) of the Code, a full offer must include offers in respect of all the securities in each class of equity securities of the target company (other than those that are already held by the offeror). Furthermore, Rule 8(4) of the Code requires that if non-voting securities (such as share options) are included in a full offer, the consideration and terms offered for non-voting securities must be fair and reasonable in comparison with the consideration and terms offered for the voting securities and as between classes of non-voting securities. In this particular case, the Code therefore requires that:

1. The consideration and terms offered for the Options must be fair and reasonable compared to the consideration and terms offered for the ordinary shares; and
2. The consideration and terms offered for each tranche of Options must be fair and reasonable between all tranches.

For the purposes of the Code, Endace's Ordinary Shares are regarded as one class of equity security and each tranche of the Options is regarded as a separate class of equity security given the different features of each tranche. Emulex Bidco as offeror must obtain a report pursuant to Rule 22 of the Code from an independent adviser which certifies that, in the adviser's opinion, the offer complies with Rule 8(4).

This report has been prepared to meet the requirements of Rule 22 of the Code. TDB has satisfied the Takeovers Panel that TDB is independent under the Takeovers Code for the purposes of preparing the report.

4. Valuation of the options

4.1 Our approach

We have firstly estimated the value of all the options as if they were vanilla call options, with normal rights of transferability and exercise. That estimate makes some assumptions about the volatility of Endace's ordinary share price but more specifically that the options are tradeable on a liquid market and that the owner has the right for the options to exist to the full term of their expiry. For this estimate we have used a Black - Scholes pricing methodology and acknowledge that while this is likely to overstate the value of the options, this "overstated" estimate gives us a starting point for what the maximum value of the options would have been if they had the full characteristics of tradeable options on a liquid market with a known expiry date.

We have then focused on the characteristics of these specific share options that suppress value.

The first such characteristic is that the share options are not tradeable on a liquid market. While this illiquidity in itself suppresses value, the magnitude of the value difference is not relevant in light of the second characteristic.

The second characteristic is the specific terms of these options (detailed within the prospectus issued with the options), which are:

Clause 8. Takeover or business sale

If one of the following events occurs:

- a) Takeover: 50% or more of the Company's voting shares are purchased by a third party (or a group of associated third parties) not associated with persons who are shareholders prior to the purchase;
- b) Business sale: Substantially all of the Company's business is purchased by a third party (or group of associated third parties) not associated with persons who are shareholders prior to the purchase; or
- c) Other equivalent transaction: A transaction occurs that has the effect of a Takeover or Business Sale, as discussed above,

all the option holder's options become exercisable. If there is any uncertainty as to whether one of the events referred to in rules 6(a) to (c) has occurred, the Board of Directors of the Company shall determine whether or not the event has occurred, and the determination of the Board of Directors shall be final. The Board of Directors shall make this determination in good faith.

Clause 10. Alteration of exercise period

The Board of Directors of the Company may, at its discretion, alter the period during which an option holder may exercise some or all of their options where a Takeover or Business Sale (as referred to in rule 8 above) is proposed to occur. Any alteration may involve permitting an early exercise of options and/or introducing an earlier final cut-off date for the exercise of options, and may be subject to specified conditions. This discretion is intended to facilitate a transaction of this type and is likely to involve providing the option holder with an opportunity to participate in such a transaction.

Clause 16. Transfer of the options

Options cannot be transferred unless specifically approved in writing by the Board of Directors of the Company.

Clauses 8 and 10 are relevant for this offer. Clause 10 has a material effect on valuation of the share options and this is shown in the following section. Through discussion with Endace directors we understand the purpose of the clauses are to:

- remove any doubt that the probability of a takeover offer being received is not reduced by the existence of employee share options

- remove the possibility that the value of the offer would be reduced by the existence of the options.

It is enough at this point to note that while clause 16 will on its own reduce the value of the options it too is made irrelevant because of the certainty of clause 10 being triggered and the effect of clause 10 making non transferability non material for the purposes of valuation.

4.2 Valuation effect of clause 10

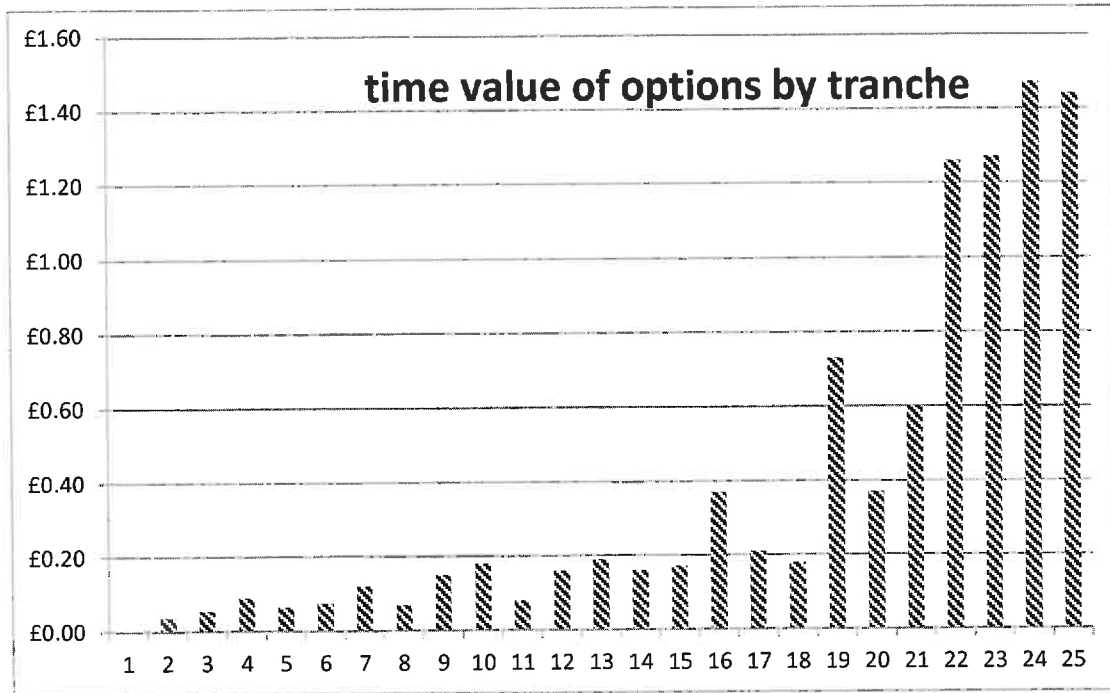
The effect of clause 10 on the valuation of options is that it removes the “time value” of the options. The total value of an option at any point in time will be made up of intrinsic value and time value. Intrinsic value can be referred to as face value as it represents the difference between the strike price of the option and the underlying security. Using tranche 23 as an example:

option tranche	number of options on ordinary shares	exercise price per share	expiry date
23	90,000	£4.600	1/08/2017

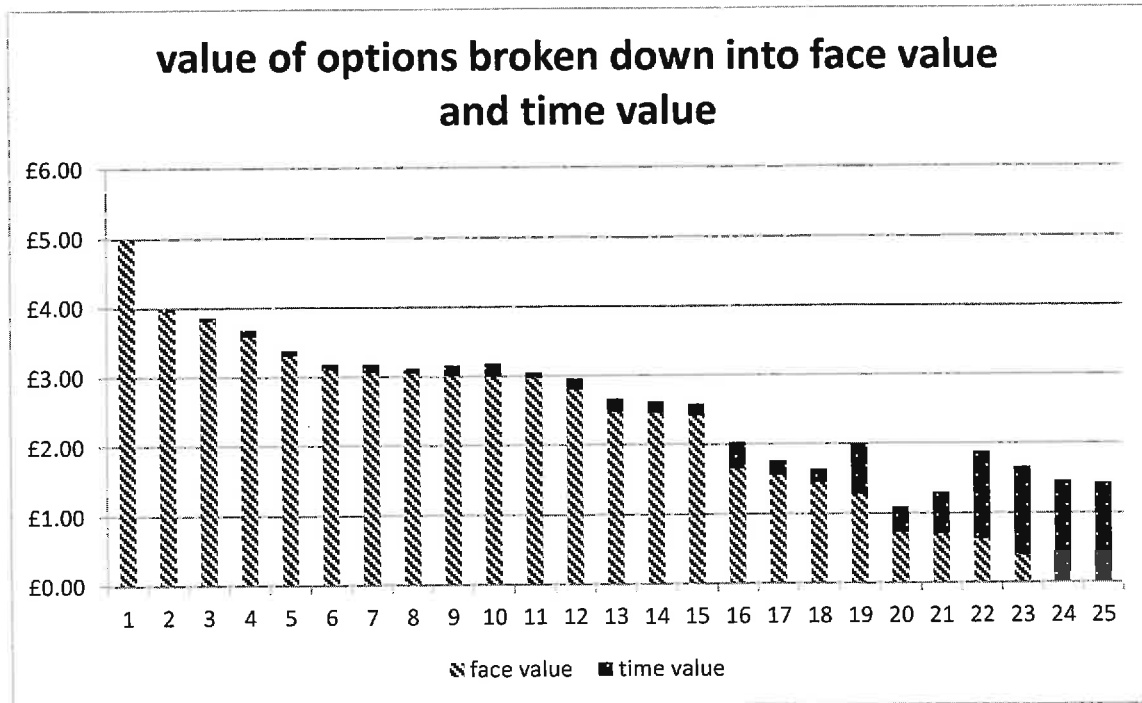
Face value is 40p being the difference between the exercise price of 460p and the ordinary share price of 500p.

In the absence of clause 10, using the Black - Scholes pricing methodology, the option would be worth approximately 167p (assuming the options are liquid and tradeable with rights to exist to their expiry date of August 2017). The difference between the 167p value and the 40p face value (being 127p) is the time value of the option. The size of the time value will reflect the probability that the underlying ordinary share will increase in value. The probability of that happening will be a function of the exercise price, the volatility of the ordinary share price, and the time to expiry of the option. The longer the time and higher the volatility, the higher the probability that the underlying ordinary share may rise in value.

Our time value estimate, expressed as pence per share option, of all the tranches of options is graphed below (refer appendix on for this table expressed as total value in pounds):



The graph below then shows the time value relative to the face value of the options:



So, all other things being equal the longer the term to expiry the higher the time value. The implication of this is that clause 10 has the effect of eliminating time value such that at any point in time the owner of these Endace options can only be certain that the options have intrinsic (or face) value.

Based upon comments from independent directors and more general discussions with directors we believe that for the purposes of this report the fair value of the share options is therefore the intrinsic value of the share options.

4.3 Valuation of options by tranche

As described in the previous section the expectation that clause 10 will accelerate the expiry date of the options to 10 days following the takeover offer means that the current expiry dates ranging from Dec 2012 to June 2018 have little meaning in a valuation sense. We have therefore bundled the options (that total 510) into tranches of exercise prices. On this basis, our valuation of the share options is tabled below:

option tranche	number of options on ordinary shares	exercise price per share	expiry date	value		Emulex offer value
				pounds	total	
1	1,548	£0.00125	21/12/2014	£5.00	£7,738.07	£7,738.07
2	168,852	£1.045	18/04/2016	£3.96	£667,809.66	£667,809.66
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6	6,500	£1.895	30/08/2015	£3.11	£20,182.50	£20,182.50
7	19,000	£1.930	22/07/2016	£3.07	£58,330.00	£58,330.00
8	48,750	£1.950	22/05/2015	£3.05	£148,687.50	£148,687.50
9	73,500	£1.990	9/11/2016	£3.01	£221,235.00	£221,235.00
10	443,953	£2.000	5/06/2017	£3.00	£1,331,859.00	£1,331,859.00
11	8,500	£2.020	5/06/2015	£2.98	£25,330.00	£25,330.00
12	141,500	£2.200	31/05/2016	£2.80	£396,200.00	£396,200.00
13	17,000	£2.520	20/01/2016	£2.48	£42,160.00	£42,160.00
14	5,500	£2.530	12/08/2015	£2.47	£13,585.00	£13,585.00
15	120,500	£2.580	26/08/2015	£2.42	£291,610.00	£291,610.00
16	30,000	£3.340	30/08/2015	£1.66	£49,800.00	£49,800.00
17	2,750	£3.440	26/05/2014	£1.56	£4,290.00	£4,290.00
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19	7,000	£3.720	10/02/2017	£1.28	£8,960.00	£8,960.00
20	66,500	£4.270	20/12/2013	£0.73	£48,545.00	£48,545.00
21	122,800	£4.290	7/11/2014	£0.71	£87,188.00	£87,188.00
22	85,000	£4.370	26/06/2018	£0.63	£53,550.00	£53,550.00
23	90,000	£4.600	1/08/2017	£0.40	£36,000.00	£36,000.00
24	8,500	£5.340	17/01/2018	£0.00	£0.00	£0.00
25	5,000	£5.500	20/02/2018	£0.00	£0.00	£0.00
	1,793,426				£4,563,803.56	£4,563,803.56

4.4 Fairness of the offer between the tranches of the options

The difference between our assessment of options value and the offer price for each of tranches of the share options is nil and so we determine that the offer is fair and reasonable between the different tranches of options.

4.5 Fairness of the offer between the ordinary shares and the options

The offer for the options is based off the same ordinary share price as the offer of 500p, so we also determine that the share options offer in comparison with the offer for the ordinary shares is fair and reasonable.

5. Qualifications, independence and disclaimer

TDB provides independent advice on corporate finance, regulatory and risk management issues faced by New Zealand enterprises. The principals of TDB are Geoff Taylor, previously General Manager Corporate Finance and Treasury for the New Zealand Dairy Board, Pat Duignan, previously General Manager Finance for Telecom Corporation of New Zealand Limited and earlier a Director in the Investment Banking Division of CSFB New Zealand and Philip Barry, previously a Director in the Asset and Liabilities Management Branch of the Treasury and Counsellor Economic in New Zealand's Permanent Delegation to the OECD.

TDB's expertise is based on the experience of its principals in advising on and managing corporate finance issues and large transactions for major New Zealand enterprises and the New Zealand Government. The principals have been responsible for a wide variety of corporate finance analyses and transactions including valuations of SOEs prior to privatisation, management of one of New Zealand's largest share repurchases, numerous capital market debt issues, and a number of equity placements. This report has been prepared for TDB by Geoff Taylor (BMS, FCTP) and Nigel Atherfold MBS (Fin), BMS (Econ), CTP, with peer review provided by Philip Barry (B.A. (Hons), MBA (Univ of Rochester)

TDB confirms that it:

- has no conflict of interest that could affect its ability to provide an unbiased report; and
- has no direct or indirect pecuniary or other interest in the proposed transaction considered in this report, including any success or contingency fee or remuneration, other than to receive the cash fee for providing this report.

This places TDB in a position to act as an independent advisor and prepare an independent report as required under Rule 22 of the Takeovers Code.

It is not intended that this report should be used or relied upon for any purpose other than as an expression of TDB's opinion on the proposed buyback. TDB expressly disclaims any liability to any ENDACE shareholder that relies or purports to rely on the report for any other purpose and to any other party that relies or purports to rely on the report for any purpose.

This report has been prepared by TDB with care and diligence and the statements and opinions given by TDB in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by TDB or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve TDB from liability arising from an opinion expressed recklessly or in bad faith.

Appendix One: Time value of options by tranche

The graph below shows the time value of the share options expressed as total pounds, by tranche:

